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Industry Transformation via Channel Disruption

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We are living in an era of disruption. Massive changes are affecting businesses and these changes are impacting traditional channels of distribution. Industries are evolving with many reaching maturity and searching for ways to create growth. Although incumbents seek to survive, this new era has created vast opportunities for startups to shake-up the status quo. This shake-up is appearing in the exchange occurring between customers and companies with the exchange facilitated by the channel of distribution. The intent of this article is to describe rapid changes occurring in a small number of industries (i.e., financial services, real estate, healthcare, and transportation) in the hopes of creating excitement for future scholarly exploration related to channels of distribution in the sharing economy.

Keywords: *disruption, incumbent, innovation, sharing economy, startup, transaction platform*

Stating that "innovations are revolutionizing the business landscape," CNBC (2016) recently provided its annual top 50 disruptor list. The names of the companies on this list are likely not surprising, with companies such as Uber and Airbnb topping the list. A perusal of this list of 50 companies from 15 industries shows clearly that a critical link being disrupted in the value chain is the channel of distribution. Whether it is transportation, hospitality, office space, or banking, to name only a few affected industries, the disruption in the channel of distribution has altered the way consumers access and acquire products and services.

These new distribution networks are becoming more and more collaborative in making products and services available in the marketplace as these networks incorporate both social and demographic attributes in the cocreation process (Lakshmanasamy & Anil, 2015). Ferrell et al. (2017) refer to this as a "seismic shift" in marketing channels and supply chains, with the foundation of traditional channels of distribution shaken to its core. Markets and the channels of distribution can be obliterated rapidly with customers defecting *en masse* to companies that can deliver product and services more quickly and cheaply than incumbent companies embedded in the traditional means of delivery (Denning, 2014).

Major industries are at strategic inflection points in their business cycles; they are reaching maturity and searching for ways to create growth. Thanks to advances in technology, industries are evolving rapidly. Reporting from a Microsoft gathering of top academic and researcher scientists, Linn (2016) noted that "technology will be used to better humanity, to make more sense of

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the world, and to use our time more efficiently" and that a consequence of this will be disruption in some industries and the invention of new industries. According to Moore's Law, computing power doubles every 18 months (Investopedia, 2016) implying that any incumbent market leader not utilizing technology effectively will be rapidly left behind by the competition.

Traditional distribution channels in industries where companies are not pushing the status quo and have grown complacent are primed for channel emergence, disruption, and transformational effects of technological changes (Yan et al., 2016). As predicted by Schumpeter (1942/2003, p. 84), the "gale of creative destruction" will sweep through industries and sink companies with obsolete capabilities.

The focus of this article is on a subset of industries that are in the throes of considerable channel disruption. The industries described are experiencing rapid startup with valuations of new businesses in the billions of dollars. These new businesses are disrupting the traditional value chain with industry-complacent channels of distribution often experiencing radical displacement.

Embedded within the channel disruption that is occurring in practice are tremendous opportunities for bringing channel research to the forefront of scholarly interest. A major intent here is to portray areas of existing channel disruption so as to excite marketing channel scholars to begin to pursue new areas of research. In doing so it will become clear that channels research is a field ripe for new and exciting scholarly activity that will reinvigorate the field and also frame the larger topic of disruption as related to technological entrepreneurial activity.

INDUSTRY DISRUPTOR

According to Wessel and Christensen (2012), disruption is less a single event than a process that manifests itself over time. One type of disruption that occurs is when a company enters a field with a new idea hoping to transform the entire industry. In a situation such as this, the company becomes the disruptor. As organizational inertia influences the ability of a new firm to predict and / or respond to challenges (Buchta et al., 2003), disruptors are looking for industries where the incumbent has grown complacent (Johansson, 2016). Grove (1996) coined the phrase "only the paranoid survive," and this mentality holds true in today's marketplace.

Over time, companies face a series of strategic inflection points and each of these inflection points is an opportunity for companies that are ready to embrace change (Brandenburger & Nalebuff, 1996). This change might come in the form of a technology disruptor in that incumbents seek to avoid market complacency. Recognizing that the time it takes for a market leader to be upended is minimal, paranoia is often critical to long-term survival for incumbents.

Startups are uniquely positioned to shake-up the current landscape. The low cost structure and lack of an established customer base requires startups to be riskier than the established competitors. The startup, then, benefits from disrupting the way things have always been done. If the startup, as a disruptor, is able to carve out a niche within the industry, it can force the hands of other companies to innovate for fear of losing market share.

This force-to-innovate readies the industry for continual changes—where only the paranoid survive. The pressures arising from this force-to-innovate are often evidenced in what Yan et al. (2016) refer to as an *e-channel production environment*. That is, a more direct selling approach to reaching the marketplace is enabled by technological efficiencies: technological efficiencies likely available to all, but incumbents are often unaware of the need to change current distribution models.

In addition to complacency, customer frustration is another identifier in an industry prime for disruption (Johansson, 2016). Welu (2016) suggests that technology allows consumers' bad experiences to rise to the surface quickly as a dissatisfied customer is only a click away from telling the world about that dissatisfaction. At the same time, with over a billion people worldwide having mobile devices, breakthrough offerings that bypass large-scale, often problem-provoking and dissatisfying, physical distribution channels can be circumvented digitally (Denning, 2014).

Customers understand what they want and companies must work to improve customer satisfaction. As customer needs and expectations change continually, companies often rely upon demand chain (channel) management tools to be responsive in the marketplace (Agrawal, 2012). Responding to marketplace demands, Yu et al. (2011) found that channel management should be influenced by consumer perceptions of channel value, quality, and price. When such customer expectations are not being met, customers will begin looking for alternatives. This search for an alternative creates an entry point for new competition in the channel of distribution as these varied demands of customers ultimately result in "doorstep" delivery, otherwise known as the right product / service at just the right time (Sarangi & Srivatsan, 2009).

Venture capital firms have taken notice of the growing number of distribution channel disruptors and funneled nearly US$60 billion into private companies in 2015, the second highest total in the past 20 years (National Venture Capital Association, 2016). This is, in part, because the most disruptive of companies have seen their valuations balloon. As of the third quarter of 2016, there were close to 200 "unicorns," companies that have company valuations over US$1 billion; these companies have a total valuation of over US$700 billion (AOL, 2016).

Industries are generally dominated by major players that control enormous shares of the respective markets. Yet, no channel of distribution in any industry is insulated against disruption nor is disruption necessarily a threat to an industry. Rather, the disruption can create an opportunity for revitalization and growth (Gilbert, 2003), with startups attempting to carve out a piece of several industries. Major trends across industries primed for disruption are the demands of customers to lower cost, increase convenience, and employ the latest in mobile offerings. The unicorns operating in disrupted industries are attacking traditional channels of distribution in ways that were previously impossible to imagine and the disruption has given way to the rise of platform enterprises (Evans & Gawer, 2016).

DISRUPTOR PLATFORM

According to Rosenbloom (2013), "all marketing channel structures contain intermediaries involving independent businesses or organizations working together to bring products and services to market" (p. 191). In today's marketplace, technology-based platforms (e.g., mobile applications) have become the intermediary that involves customers in the logistical cocreation of channel activities (Bahn et al., 2015). In particular, digital technology has been referred to as an enabler of fundamental innovation and disruption in channels of distribution with businesses now utilizing digital platforms to create dynamic business models that trigger self-reinforcing cycles of growth (Evans & Gawer, 2016; World Economic Forum, 2016).

This digital transformation has led to the creation of new business models as disruptors have revamped operating models to take advantage of the vast amount of digital power in today's technologically savvy world. According to a white paper from the World Economic Forum (2016), whether an incumbent seeking to transform and thrive in a digital economy or a startup taking advantage of turmoil in an industry, companies will need to identify the digital business model (i.e., what companies need to do), delineate a digital operating model (i.e., how companies will do what they need to do), and determine the digital talent and skills necessary to execute this new model (i.e., who companies need to work with to succeed). Referred to as *platform companies*, the power of these platform business models has grown dramatically over the past few years (Evans & Gawer, 2016).

Platform companies do not have to be digital, but most are even if they incorporate physical elements in the course of doing business and meeting customer needs. According to Evans & Gawer (2016), there are four types of platforms: (a) *transaction platforms*, where the technology, product, or service acts as an intermediary for facilitating exchange among different users, buyers, or suppliers; (b) *innovation platforms*, where the technology, product, or service serves on top of what other firms develop such as complementary technologies, products, or services; (c) *integrated platforms*, where the technology, product, or service is both a transaction platform and an innovation platform; and (d) *investment platforms* that are early stage investors in platform companies. The transaction platform creates a multisided marketplace and facilitates exchanges between buyers and sellers; thus, closely resembling the channel of distribution.

All of these platform types have created what is now referred to as a *sharing economy* or *gig economy*. From a channel perspective, the transaction platforms have significantly changed the way that all types of products and services are found, marketed, and distributed (Sundararajan, 2016). The disruptive platform in the exchange process has served to create heightened customer expectations with regards to rapid response and delivery: in essence, on-demand logistics via handheld technology. Although on-demand logistics have enabled consumers with the ability to cocreate products and services, the same mobile technology has facilitated payment transactions within the marketing channel and overall supply chain (Horne et al., 2015).

Also, although the startups in this new sharing economy are built upon digital platforms, growth / survival options for incumbents in the new sharing economy are: (a) to build digital platforms organically, (b) to acquire companies with digital platform capabilities, and (c) to build digital platforms through alliances. According to a white paper from the World Economic Forum (2016), an incumbent must be willing to disrupt itself to survive in the future. In doing so, the incumbent will not only need to change its business model, it will likely have to change its operating model, too. Changing the operating model will bring efficiencies in delivering products and services and, ultimately, in providing rapid response to customer desires in the growing peer-to-peer marketplace.

Whether startup or incumbent, the sharing economy continues to change the status quo. With customers in today's marketplace using multiple channels to attain satisfaction in a transaction, unique solutions and calculated efforts are needed by companies seeking to thrive in a marketplace driven by the digital technologies that disrupt the old way of doing business (van der Veen & van Ossenbruggen, 2015). In the next section, we juxtapose traditional formats with the newer transaction platforms in several industries that analysts have consistently identified as prone toward disruption (Franklin, 2015; Galvin, 2015; Johansson, 2016; Tobak, 2016).

TRANSACTION PLATFORM DISRUPTIONS

With incumbents under attack by disruptors, several industry sectors have experienced transaction platform disruptions over the past few years. Four industries particularly impacted are financial services, real estate, healthcare, and transportation (Franklin, 2015; Tobak, 2016). These industries are seeing considerable disruption as related to traditional channels of distribution. In the following sections, we describe the channel disruption in these four industries, disruptions that are active and fundamental in the sharing economy.

Financial Services

Incumbents in the financial services marketplace are plentiful. Traditional retail banks, lenders, and asset managers are struggling to compete with online banks, peer-to-peer marketplaces, and robo-advisers (BI Intelligence, 2016). According to a Viacom Media Networks (2013) study, banking is one of the industries at greatest risk for channel disruption.

Traditional Retail Banks versus Online Banks

Brick-and-mortar retail banks operate with massive location-based infrastructure, built on the premise of face-to-face relationship banking. Historically, opening a checking / savings account and depositing a paycheck relied upon a visit to a local bank. However, 71% of Millennials reported that they would rather go to the dentist than listen to what a bank had to say, with 53% not seeing a difference among banks and 33% not believing that they even needed a bank at all (Viacom Media Networks, 2013). Thus, from a customer experience perspective, this infrastructure-intense industry was ripe for channel disruption. Disruptors in the banking sector taking advantage of changing consumer tastes and leveraging the digital channel platform range from well-known brands such as Capital One to startups such as GoBank.

Capital One has a long history during which the bulk of its business was in credit cards. Many of the credit card offerings were targeted to the younger consumer, thus helping the company build its brand name to a growing consumer segment. Building on its depth in this consumer market, the company was able to take advantage of the digital platform to reach out with its Capital One personal banking. Millennials possessing a Capital One credit card found it easy to open a Capital One bank account without ever having to talk with a person or go to a brick-and-mortar location. But, in case a consumer wanted the comfort of a brick-and-mortar location, the company partnered with the popular Peet's Coffee to create a social, café-like setting for banking business where onsite employees steer consumers to the company's website for service offerings (Rexrode & Sidel, 2015).

A startup in this disruptive banking channel revolution is GoBank, an entirely online checking account platform that has no branches or social cafés. The company's strategy is to attract consumers discouraged with traditional banks' hidden fees and confusion around the major banks. According to the company's website,

> GoBank is a checking account designed for people who are fed up with the big banks and their big fees. You're always welcome to apply for a GoBank account even if you've been turned down for a checking account in the past! (GoBank, 2016)

The company strives for simplicity with a network of over 40,000 free partnered-ATMs and mobile check depositing underlying the consumer's ability to send money between accounts with ease. The intent is to capitalize on the growing use of mobile and to take market share from traditional retail banks.

Gone are the days of walking into a bank to open a bank account or even needing to interact with a human being. Plus, running an asset-light structure not having retail locations as a channel intermediary allows online banks to decrease fees and pay higher rates.

The transition to mobile banking was highlighted by a 2015 Bank of America Trends report where it was found that more than half of respondents identified mobile as the preferred choice for banking (Marous, 2015). Mobile banking essentially removes an intermediary (i.e., the face-to-face banker) in the channel of distribution. The bank still engages in all of the back office operating processes as related to the supply chain, but the customer does not need the traditional retail channel engagement. Innovative nonbanks are resolving long-standing pain points in the customer–retail financial services relationship within the channel of distribution (Crittenden et al., 2014).

Traditional Lenders versus Peer-to-Peer Markets

The rapid growth of peer-to-peer lending is not something that should come as a surprise in the current economy. Interest rates have been at all-time lows for an extended period of time, but this has not been reflected in interest rates to the consumer. In 2014, the average interest rate at credit card companies was still above 15% (Dilworth, 2014). This high interest rate created an opportunity for the introduction of peer-to-peer lenders who could connect high credit-quality borrowers with loans as low as 7.72% (Van Doorn, 2016). This space grew rapidly with US$5.5 billion in loans in 2014 and, based on recent growth rates, it is estimated that peer-to-peer lending platforms could exceed US$150 billion in loans by 2025 (PricewaterhouseCoopers LLP, 2015).

Prosper was able to develop a peer-to-peer platform as a way of connecting borrowers and lenders (Cortese, 2014). Prosper uses its proprietary rating system, combined with FICO credit scores, to develop an interest rate reflective of a borrower's risk. The main goal is to provide individual lenders with returns greater than that currently offered in the market and, thus, reduce the interest paid by borrowers with good credit. Borrowers are asked to provide basic information regarding the loan and the individual credit history. The loan is then posted for investors to view all pertinent information and make a decision whether the rate is justified by the risk involved with the loan. Meanwhile, Prosper is seen as an intermediary and takes on no risk associated with the loan.

Unlike traditional lenders (e.g., banks), peer-to-peer lenders do not lend their own funds. The disruption in this financial space has essentially created a new funds marketplace with crowd lending as the channel intermediary via a digital platform. Legally, this type of channel exchange platform falls under the securities governance structure. Thus, not only has the disruption created a change in the channel intermediary process, the channel disruption necessitated a change in the governance structure with the traditional channel lending scope (Nolan et al., 2016).

Traditional Asset Managers versus Robo-Advisors

Financial advisors and traditional asset management options have long been out of reach for everyday consumers. These firms generally require high minimum asset values and charge large asset under management fees (Ludwig, 2016). For example, if a young professional is looking at a US$250,000 account minimum and 1% to 2% annual fee, this young professional will look for a different way to manage his or her money. This has long been a challenge for the younger generation hoping to get a better grip on their financial future but not relinquishing control entirely to an advisor. Robo-advisors are becoming a preferred option for Millennials who enjoy automated tool, privacy, and lower investment options (Kumok, 2016).

Betterment is one of the largest independent robo-advisors entering this market segment. In two years, the company grew from US$1 billion in assets under management to US$5 billion (Editorial Staff, 2016). The company's offering is available to all investors with low barriers to entry showcased by no minimum deposit and fees as low as 0.35% annually.

Streamlining the process by allowing direct deposit, custom asset allocations, and automatic reinvestment of dividends, Betterment allows customers to be hands-on or hands-off at any point in time (Ludwig, 2016). The company has evolved rapidly adding additional features, decreasing fees, and expanding asset allocation offerings that has allowed it to differentiate itself from traditional asset managers. Betterment is attempting to utilize the best of both worlds by combining the robo-advisor mentality of automatic rebalancing and minimal oversight with world-class customer service and response times should clients have questions (Gardon, 2016).

Robo-advice is changing the way the marketplace thinks about asset management. According to a report published by Accenture (2015), one of the main concerns that wealth management firms must address, as related to robo-advisors, is that of developing an effective distribution strategy. In particular, a wealth management firm must decide whether to use its own branded offering when reaching clientele seeking robo-advice (e.g., Millennials) or whether to create a new brand for the new channel offering.

Although direct-to-consumer issues such as branding and delivery channel considerations arise, there are also business-to-business channel changes brought on by the use of robo-advisors. For example, the cost savings for the ultimate investor will have likely occurred because of the removal of the fund middleman from the transaction. Thus, the lower cost to the consumer is achieved, in part, through greater economies of scale in the channel of distribution (Kitces, 2015).

Real Estate

According to PricewaterhouseCoopers LLP (2016), the flow of capital into the real estate market is growing, with total acquisition volume in the United States (U.S.) alone up almost 25% year-to-year. Considering a financial outlook such as this, combined with digital opportunities, the real estate marketplace has been identified as an industry facing considerable disruption (Tobak, 2016). This marketplace includes, for example, individual home owners, commercial property management, and real estate investment trusts. Thus, the disruptive impact is being felt by many.

Traditional Brokers versus Online Real Estate Databases

A recent study reported that 57% of Millennials view home ownership as an important goal, compared with 38% of Gen Xers and 34% of Baby Boomers (Weinswig, 2016). The housing industry has seen its customer base become more technologically savvy and mobile oriented, with the expectation of receiving a high quality of customer service.

Millennials have exhibited the desire to have information at their fingertips. It is not enough for a realtor to show a Millennial a variety of locations and tell them some handpicked facts about each listing. The Millennial client wants to quickly and easily view additional details about the property, such as cost per square foot, neighborhood reviews, and comparisons to comparable listings.

With the Multiple Listing Service (MLS) in their hands, traditional real estate agents were the knowledge brokers about property for sale or rent. Having to log into an MLS site via agent access made an agent a necessary intermediary in the property information channel: they literally had all of the control. The agents knew which properties were listed and these agents understood the market, then used this knowledge to steer buyers toward specific properties. Zillow entered the market in 2006 and information exchange about real estate property hit the digital transaction platform.

Zillow is a residential listing company that exists primarily online through a webpage and mobile application. With regard to the disruption of the traditional real estate business model, Zillow was not designed to remove the personal connection between the consumer and a real estate agent. Instead, Zillow puts important property information in the hands of the buyer, educating the buyer to streamline the buying experience.

Zillow utilizes access to public data as its greatest value-added offering. The company creates Zestimates daily using internal algorithms: the Zestimate is the starting point in calculating the value of a piece of property. It is developed using building structure and neighborhood-specific information (e.g., number of rooms, size, amenities, location, etc.) to create a baseline value of the property (Hobson, 2015). Conscious of its own ability to be disrupted, Zillow attempts to continually innovate. For example, three times a year the company sponsors a week devoted to embellishing current innovative approaches and generating new opportunities for growth (Zillow, 2015).

Zillow is unique to channel disruption as the company is not technically unseating the incumbent channel member. Rather, Zillow levels the playing field for property buyers and sellers by increasing access to information throughout the channel. Based on Zillow's current business model in which the majority of the revenue is based on advertisements, real estate agents are a huge portion of the revenue stream (Swinderman, 2015). Thus, eliminating the real estate agent as a key channel member would require Zillow to pivot its strategy.

Traditional Hotels versus Consumer-Owned Listings

Hospitality is a major player in the real estate industry. With consumers increasingly looking for a "homier" vacation location with an authentic feel combined with their demands for improved service, mobile offerings, and price competition, the hotel industry was ripe for disruption (Glusac, 2016). As noted by Mogelonsky (2016), there is an integral link between short-term rental property (such as hotels) and real estate.

For example, high demand for short-term home rentals could lead to rapid increases in monthly rental fees and house prices. Additionally, with extra space having income-earning potential, homeowners might be less likely to put their homes on the for-sale or rental market. This lowers the number of available homes on the market and a low housing supply then drives up real estate prices for potential buyers and renters. All the while hotels lose customers, resulting in lower tax revenue for cities and states. With this backdrop, the sharing economy has made huge inroads in the real estate rental marketplace.

Airbnb is a dominate player within the short-term rental industry with the company's role primarily that of a channel intermediary. The real estate space that Airbnb has unlocked is within residential houses where there is unused space, whether it be vacant bedrooms or entire properties. The company pairs these vacant spaces with travelers hoping to capitalize on a great deal, a rental that feels more like home, or a unique experience (McDaniel & McDaniel, 2016). Airbnb charges a small fee to the owner of the real estate listing and streamlines the rental process for both parties.

According to industry stakeholders, the hotel industry is experiencing dramatic changes, with the most challenging that of distribution (C. E. Green & Lomanno, 2012). Airbnb, for example, is uniquely positioned to take on the hotel industry as it has found unused space and paired it with customers looking for more rental attributes. As an intermediary in the channel process, Airbnb operates with little fixed costs and no overhead related to property maintenance. In conjunction with the digital travel market, Airbnb offers a new type of intermediary in the hoteling channel of distribution.

Interestingly, Airbnb operates much like the traditional travel agent or even a property manager in the real estate rental marketplace. Yet, the company is generally compared with hotels and investors have clearly taken notice. Bloomberg recently reported that Airbnb is in the process of raising a round of funding valued at over US$30 billion to support new investments and growth opportunities (Newcomer, 2016).

Traditional Office Space versus Coworking Space

The increase in the quantity of startup companies has left the commercial real estate industry struggling to adapt to new norms. Small companies demanding flexibility and long-term office leases are anything but flexible. Startups have unique demands when it comes to office space: they are looking for locations that are convenient, offer room to grow or shrink, provide opportunities for the development of like-minded community members, and are cost effective (Welsh, 2016).

None of these is an attribute of the standard commercial real estate industry where a broker is often focusing on locking in a 5- or 10-year lease so as to maximize commissions (McGraw, 2016). One of the most powerful ways to cultivate ideas when companies are looking to innovate is to work with other innovators. This is why coworking has grown very popular.

Coworking is the idea that companies are more effective when employees from different companies and industries can collaborate and share ideas. The growth of both freelancers and startups have resulted in the need for real estate space where these creatively minded people can work outside their homes in a professional environment, but at the same time be social and expand their networks (Spreitzer et al., 2015).

One of the major players in this field is WeWork. WeWork has a very intriguing business model as it is a real estate company that runs in an asset-light framework. The company does not own its own buildings; instead, it masterfully develops properties to be subleased. WeWork focuses primarily on large innovative centers where real estate customers are more than willing to take advantage of the month-to-month membership options.

Some membership options allow customers access to any of the company's locations around the world as long as there is vacant space. This allows freelancers to come and go as they please, using any of the available amenities such as WiFi, printing, coffee, and beer. These are people looking for an environment similar to a coffee shop that operates like an office, recognizing that it is important to be productive and build the company but also desirous of collaborating with others who may not have direct experience in the same industry (Bilton, 2016).

With flexibility and mobility as key attributes, a WeWork member can reserve a location from the company's mobile application and the space will be available upon arrival. WeWork has also managed to simplify the need-for-space process as a startup grows. For example, a startup can somewhat quickly balloon from a few founders needing a desk to 20 or more employees needing a variety of different offices and conference rooms (Rice, 2015).

Coworking space can also have a tremendous impact on the world of franchising, a major player in the channel of distribution. Minimal office space needs and low overhead enable the franchisee to focus on the building-out of the distribution system rather than the building-out of a physical office. The result is a reduction in a company's real estate footprint with the shifting of physical space on an as-needed basis within the distribution network, thereby reducing idle capacity in the channel (Parker, 2013).

Healthcare

With approximately US$3 trillion annually in spending power, the healthcare industry is ripe for disruption and startup company initiatives (Franklin, 2015). Healthcare is one of the most difficult industries for new companies as there are a multitude of barriers to entry to be overcome. The industry is one of the most heavily regulated and many of the major players push to maintain the status quo. Due to stiff regulations, many new innovations must endure considerable scrutiny before being released to the public, resulting in delayed profit acknowledgement for companies. Healthcare also has a complex payment system as exactly who is billed for a specific service is an extremely inefficient system shrouded in confusion as to the responsible party (Herzlinger, 2006).

Yet, numerous barriers do not appear to have greatly deterred investors from the industry as there was over US$20 billion of investment in the healthcare industry in 2015 and a significant portion, over US$4 billion, was in Series A investments (Stanford, 2015).[1] Investors realize that with the growth of technology many new doors have opened that allow for improvements in care, decreases in cost, and enhancements to convenience. In addition, consumer demand for healthcare advancement helps drive innovation.

Traditional Insurance Companies versus e-Insurance

In an industry that struggles to grow due to regulations and other barriers to entry, health insurance is the dinosaur of the group. Confusing to consumers and slow to adapt to changes in technology, health insurance has been slow to utilize big data to understand needs, improve service, and reduce the chance of large expenses in the future. This is due largely to channel issues associated with how insurance agents are compensated and the relationships between the insured and the insurance companies. Such issues are not surprising as most health insurance programs are focused on the year-to-year expenses incurred from a plan rather than the total life of the customer (EYGM Limited, 2015).

The biggest change in health insurance in the U.S. over the past five years has been the Affordable Care Act. Under this act, 20 million additional Americans have gained health insurance (U.S. Department of Health and Human Services, 2016). This growth in the number of insured Americans has created an interesting new market for health insurance. Oscar Health is one company taking on this new marketplace. Oscar has positioned itself as a

[1] *Series A investments* in general refer to early stage venture capital funding for growth business. Although a full discussion is outside of the scope of this article, for additional information see http://www.investopedia.com/articles/personal-finance/102015/

consumer-friendly version of the big corporate insurance companies. The company seeks to utilize advanced technology and customer service to give its users more enjoyable interactions (Abelson, 2016b). Although pricing for Oscar is in line with other health insurance companies, Oscar hopes to improve the overall experience through end-to-end care.

Oscar has a series of unique benefits as it tries to encourage long-term use of its product. For example, customers are rewarded for taking care of their own health and the company uses teams that can help patients remember to take their medication or better handle conditions such as high blood sugar (Abelson, 2016b). It has also done a better job than many large corporations in marketing some of its benefits that are not unique, such as subsidized gym memberships and telehealth consultations, and it hopes to keep members long term by incentivizing them with rebates or cost reductions (Farr, 2016).

Oscar has faced an uphill battle due to the numerous health insurance regulations, but the company has achieved an astonishing valuation of US$2.7 billion (Bertoni, 2016). This valuation was mainly because of the size of the potential market that Oscar is attempting to disrupt and the room for growth investors see going forward.

According to Dumm and Hoyt (2003), a variety of distribution channels have existed in the insurance marketplace (such as company-led channels, agent-led channels, bank-led channels, and Internet-led channels) with companies leveraging multiple channels simultaneously (Bhattad, 2012). However, established companies in the insurance industry have been slow to adopt consumer-facing technology and digital tools into the channel business model (Bain & Company, 2015). Yet, technology is redefining the health insurance marketplace via a change in the way advice is disseminated and shared between consumers and businesses, possibly eliminating the need for the traditional insurance distributor intermediary in the channel (Yoder et al., 2012).

Traditional Doctor Visit versus Telemedicine

Allies in the new age of health delivery are the ideas of convenience and cost decreases, both ideas that impact the traditional channel of distribution. Telemedicine is a disruptive force in healthcare as it shakes up a stagnant service by both improving the care offered and decreasing costs (Washburn & Brown, 2015). Telemedicine allows hospitals and clinics to obtain expert opinions from specialists who are not on staff. In this way, it is not only disrupting the standard doctor's visit but also improving the service a doctor can provide.

Additionally, advances in video conferencing and devices designed to measure biometrics remotely have allowed many tests and referrals to be moved off-site. This has proven to be particularly important to improve care for rural areas, enabling exams to be conducted virtually (Ripton & Winkler, 2016). This benefits both the clinics that are seeking to improve service and the patients who are seeking treatment that is otherwise inconvenient or impossible to obtain.

Ramesh et al. (2013) explored the impact of a two-channel telemedicine system for rural healthcare in India and found the potential for telemedicine to offer significant improvements in healthcare. According to the American Telemedicine Association, more than 15 million Americans were treated remotely last year (Beck, 2016).

The Chief Executive Officer of American Well, a leading telemedicine company, is quoted as saying that "we're not changing how the world works" instead "we're opening it up online" (Abelson, 2016a). American Well partners with insurance companies and medical professionals to improve the level of care offered to patients.

The company believes there are many health issues that do not require a physical trip to a doctor's office but, instead, can be assessed virtually. Through the company's mobile application, dubbed *Amwell*, a patient can quickly and conveniently find a doctor using a smartphone to have a virtual consultation. The company opens up additional channels that allow users, particularly those located in rural areas, to have improved care from specialists (American Well, 2016). American Well's primary goal is not to change the healthcare service provided, but to change the way that the service is provided.

Not only does telemedicine affect the channel with regards to delivery mechanisms, it also impacts the need for brick-and-mortar facilities in both new and old markets (M. Green, 2016). As healthcare delivery channels switch to a technology-based platform that might or might not require on-site delivery, the fixed costs associated with physical space in the supply chain can be reduced as well. A total system makeover for telehealth has the potential to create a virtual provider–consumer delivery channel without face-to-face communications between the patient and medical staff (Ernst & Young LLP, 2014).

Transportation

Technology continues to disrupt the travel and transportation industry. A seamless, end-to-end journey is no longer a vision, rather it is reality for basically all sectors in the transportation industry. Safe, user-centered, integrated and intelligent networks, with automated pricing and payments, is now the norm rather than the unusual (Deloitte LLP, 2015). As noted by Schmahl (2014), legacy go-to-market channel strategies and operating models must change to meet the ever-evolving demands of consumers. Transporting from point A to point B has been at the forefront of disruption in the transportation industry and the key sector at this forefront has been with people and ground transportation. According to Wohltorf (2014), "Legacy ground transportation has truly been disrupted."

Traditional Taxi Service versus Ride Sharing

Consumers have long been unhappy with traditional taxi service (Rampell, 2014). Taxi rides are considered expensive and inconvenient with inconsistent quality. The taxi industry is highly regulated with local government-issued medallions signifying and restricting operating permission that tends to result in higher costs that are ultimately passed along to consumers via higher prices (McGregor et al., 2015). Although the benefits of such tight regulations are up for debate (Frizell, 2014), there is no doubt that ride sharing has upended this industry.

Uber, the most well-known of the ride-sharing applications, ranked number one on the CNBC's (2016) top 50 disruptor's list. Uber brings the convenience of door-to-door service and seamless transactions to one's mobile device. Uber's job is to connect people who own cars and want to make extra money with riders who need to get from point A to point B.

Uber does not employ the drivers—drivers are treated as independent contractors—yet Uber does conduct a background check and examine an Uber applicant's driving record. Once past the initial screening, the car driver becomes a driving partner and can begin making pickups.

Uber operates a cashless transaction process. The company takes responsibility for billing to the consumer's credit card and payment to the driver, with Uber's service fee totaling from 5% to 20% of the transaction amount (Pullen, 2014).

In addition to facilitating the transaction process, the company's mobile application also allows customers the opportunity to provide feedback on a particular trip and / or driver. This customer-friendly option on the Uber application enables the company to have easy, comfortable, and quick engagement with the customer, allowing the company to stay on top of issues and concerns that customers might have. This strategy has been extremely scalable: Uber now operates in over 75 countries and over 500 cities (Uber Estimate, 2016).

The underlying framework that differentiates traditional taxicab companies and ride-sharing companies in the channel of distribution is that ride-sharing companies are positioned as information-sharing technology companies and taxis are in the transportation marketplace, two different locations in the channel (Morgan, 2015). Taxicabs are one of the most regulated modes of ground transportation and the ability to become a member of this channel of distribution, referred to as *entry control*, is highly restricted (Cramer & Krueger, 2016; Schaller, 2007). Ride-sharing companies are merely networks of independent drivers who provide services, with Uber (for example) offering the technological platform to connect the customer and the independent transport-operator. Such information-sharing platforms are not highly regulated.

Traditional Transportation versus Peer-to-Peer Transportation

The business model implemented with regard to peer-to-peer people transportation has evolved as the overarching disruptive framework in the industry. Considering this framework, other sectors in the transportation industry are recognizing the "uber-fication" of the business model (Rossi, 2015). For example, moving company startups such as Bellhops, Buddytruk, Dolly, and Wagon are focusing on the micro-moving marketplace with venture capital investments of US$2 million over a recent two-year period (Sims, 2015; Weinerman, 2015).

With numerous small players in this disruptive corner of the sector, none has taken the lead in the market or built to scale so as to claim ownership of the startup moving industry marketplace. Additionally, there is speculation of a shift to peer-to-peer delivery, but this aspect of transportation appears to be a channel still preparing for disruption. It is unclear if incumbents (e.g., FedEx, UPS) or startups will lead the way (Malloy, 2016).

Many scholars suggest that the transformation of the transportation channel of distribution is an example of the Coase Theorem in practice, with peer-to-peer companies reducing transaction costs, increasing social utility, and disaggregating the structure of the firms (Jenk, 2015). Additionally, although traditional transportation companies need to understand optimal pricing and fleet size for a particular area, peer-to-peer companies are less interested in such variables as investment is not made in operating equipment (Zhang & Ukkusuri, 2016).

CONCLUSION

This research focused on a sampling of major industries that are being disrupted by startups attempting to displace traditional transaction platforms that facilitate the exchange process. Two overarching observations in this channel research were the use of technology and new forms of partnerships as enablers of the platform disruption. Clearly, the disruption observed in these transaction platforms would not be possible without the advent of digital technology. However, it was also apparent in the disruptor observations that new and unique forms of partnerships have also enabled changes in the transaction platforms within the channels of distribution.

TABLE 1
Industry Transformation

New thinking	New or creative use of technology	New skills and resources
Channel disruption model *What* companies need to do to satisfy customer desires, solve problems, and displace existing channel methods.	Technology operating model *How* firms will do what they need to do to deliver product / service and get paid.	Resource acquisition model *Who* firms will work with to access required expertise and resources.

Technological improvements and the creative use of existing technology are allowing firms to alter or displace existing channels in a variety of industries. These channel disruptions are providing value that is convenient, timely, and cost effective. In some instances, displacing the existing channel business model allows greater customization and an increased diversity of customer segments. Several firms have also found that displacing traditional channels provides closer contact with the customer and greater control over the product / service offering. Closer contact allows greater responsiveness to pricing (e.g., Uber surge pricing), customer feedback, and faster delivery.

The transaction platform disruptions highlighted in this descriptive research portray the creative acquisition and use of resources that have changed traditional channel business models. Although technology is clearly at the heart of the disruptor business model, partnering is also a key component of this business model. The partnering that is occurring has enabled disruptor companies to reduce, if not eliminate, costs and risks associated with more traditional channels. For example, warehousing, infrastructure, financing, insurance, and risk associated with product obsolescence are frequently borne by partners. Changes also may lead to greater overall productive efficiency as resources will experience less downtime or not go unused (e.g., an empty bedroom that can be rented on Airbnb).

Our review suggests that channel disruption that will lead to industry transformation has several requirements as shown in Table 1. The first of these is innovative, new thinking regarding the channel needed to satisfy customers and solve problems. Sometimes, as seen in the examples, this has meant eliminating channel intermediaries. In many of the examples, this has meant a dramatic shift in ownership of infrastructure and equipment.

The second requirement is new or creative use of technology. Several cited examples demonstrated the use of digital mobile technologies to connect suppliers and customers and to conduct financial transactions within the channel.

The third requirement, new skills and resources, also are needed to fulfill this transformation. Most firms, in the examples, developed or acquired the digital expertise as in-house assets, yet sought to externally partner for other costly resources.

With channel business model disruption, incumbent firms and labor markets are at risk. Although consolidation may allow some incumbent firms to gain scale efficiencies and continue, others will be too inefficient to survive and, thus, forced to exit. Labor market discontinuity will be created as fewer jobs using traditional channel skills will survive. The traditional channel workers will have to upgrade skills and perhaps relocate to adjust to industry upheaval.

Although incumbent firms are at risk due to an inability or resistance to change, startups face considerable challenges as well. As evidenced in this research, the advent of channel business model disruption brings several challenges that many startups fail to identify until confronted with the issues:

- Will the market accept the proffered channel option?
- How long will market acceptance take (i.e., how much money will the firm burn through)?
- Which party or parties (e.g., startup firm or partner firm) are assuming the burden of risk?
- What legal and / or liability issues arise? [For example, Uber faced issues concerning drivers designated as independent contractors rather than employees and Airbnb was cited for zoning violations regarding short-term rentals.]
- What insurance is needed?
- Are lawmakers shaping rules to encourage innovation and / or aid to incumbents that might create rapid competitive response?
- What cyber-security measures must be taken to ensure customer and partner / contractor / employee data security?
- What protection is there, if any, for the intellectual property around the use of technology (e.g., patents, trade secrets)?

Questions such as these also create vast opportunity for future research. For example, little is understood about the regulatory environment in which companies in the sharing economy operate. Edleman and Geradin (2016) suggest that an updated regulatory framework is necessary in which technological platforms operate and deliver benefits that displace traditional members of the channel. Changes in the regulatory framework in conjunction with the structural implications of the sharing economy will likely fall squarely within the domain of transaction cost theory (Henten & Windekilde, 2016). However, exploration into the sharing economy has yet to utilize a strong theoretical foundation for understanding this multisided platform.

Insurance companies also face tremendous challenges as the pay-as-you-go business model is likely the future for this industry. Although it is clear that insurance is already facing a disruptive ripple effect with the blurring of personal and business coverage needs in the sharing economy, little is understood about the long-term ramifications for growth opportunities (Francis et al., 2016). Likewise, little is known about how the sharing economy will disrupt the franchising distribution channel, a channel often considered one of the major distribution channels (Frantrepreneur Mentor, 2005).

This research focused on just a few industries in the throes of channel business model disruption. Other industries are starting to experience change and evolving technology will create continued channel upheaval. Examples of expected upheaval include the use of drones for distribution, 3D printing to eliminate the need to inventory parts, augmented reality to replace actual travel to a destination, and "wearables" that alert one's health care provider with detailed information about adverse symptoms. Further advances in vehicle technology (e.g., self-driving vehicles) will also broaden the scope of possibilities, yet also escalate challenges (e.g., cyber-security). These future channel upheaval opportunities expand disruption beyond the transaction platforms that have been described in this research and extend beyond the intermediary exchange between users, buyers, and suppliers.

Although the exploration described here was limited in scope with regard to industries and companies, the issues identified warrant consideration for future research. The opportunities surrounding the channel disruption, whether related to incumbents and the slowness to adapt to change or startups and the ability to pivot quickly, demand rigorous research to understand the future of channel business model disruption. This research will likely extend across both disciplines and context as noted, for example, by the ripple effect in the insurance industry with regards to what might be the need to change product offerings to a pay-as-you-go model or within the transportation industry with the need to rethink strict regulations related to entry point and control.

Traditional channels of distribution are being disrupted, yet the scholarly research in the channels of distribution literature has not been at the forefront of these changes in the channel business model. As noted by Blank (2013), the lean startup may be changing almost everything we have traditionally thought about business planning and the dominance of the channel as a point of disruption might elevate the channels of distribution to a more prominent place in business strategy research.

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