

# Chapter 111

## A Holistic View of the Challenges and Social Implications of Online Distribution: The Case of Pensions

**Tina Harrison**

*The University of Edinburgh, UK*

**Kathryn Waite**

*Heriot Watt University, UK*

### ABSTRACT

*Recent policies, aimed at reducing pension costs and improving consumer awareness, have contributed to the development of the Internet as a distribution channel within the pensions sector. This article critically evaluates the extent to which use of the Internet has facilitated and promoted pension distribution in the UK, as well as identifying the forces that are constraining or facilitating further change. Drawing on data gathered from pension providers, intermediaries and consumers the paper discusses the threat and implication of disintermediation, the capability of the Internet to empower those who use it, the resource implications of channel conflicts and the outcomes of shifts in responsibility for process enactment. The article reveals that the Internet has had some impact on the structure, geography and processes of pension distribution within the UK.*

### INTRODUCTION

The market for individual and company pensions has been identified as uncompetitive and inefficient resulting in consumer confusion and apathy (Sandler, 2002; Pickering, 2002). Recommended solutions

are large-scale product rationalisation and process simplification. Sandler (2002) suggests end-to-end electronic processing as a key means to achieving improvement whilst noting that “success will necessitate very broad take-up” (p. 217) requiring collective action and co-ordination. In response pension providers are seeking to develop the Internet as a low cost distribution and communication channel.

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There are opportunities for providers to develop direct online sales, for advisors to develop online financial advice services and for consumers to utilise the Internet to inform decision making.

This chapter critically evaluates the extent to which use of the Internet can facilitate and promote pension distribution as well as identifying the forces that are constraining or facilitating change. The paper investigates the beliefs, attitudes and behaviours of key constituents of the pensions distribution network, notably: pension providers, independent financial advisers (IFAs), corporate pension customers and the individual consumer.

The chapter informs several broad areas of debate including: the threat and implication of disintermediation; the capability of the Internet to empower those who use it; the resource implications of channel conflicts and the outcomes of shifts in responsibility for process enactment. From a strategic marketing perspective this study contributes to the debate into how service organisations can develop more efficient distribution strategies and the management issues surrounding alternative channels of access to consumers.

## **BACKGROUND**

E-commerce technology is now viewed as an integral part of marketing channels and distribution systems (Rosenbloom, 2004). An e-enabled supply chain is perceived as having many advantages, for example increased business efficiency, enhanced information flows, improved transaction speed, wider geographical spread, increased temporal reach, cost reduction and competitive differentiation for e-enabled constituents (Hoffman et al, 1998; Zank and Vokurka, 2003).

In addition, “the Internet offers *direct* links with customers, suppliers and distributors... [enabling] companies to *bypass* others in the value chain,... to *dominate* the “electronic channel” and thereby control access to customers and set terms of trade” (Walters and Lancaster, 1999, p.800,

original italics). Hence, e-commerce technology has the potential not only to enhance supply chain performance but also to change its structure and may even pose a threat to certain supply chain members, particularly the intermediary. However, intermediaries perform a number of functions including specialised information, professional advice, customisation to consumers’ needs, and reduction of uncertainty (Kimiloglu, 2004). Thus a company bypassing a distribution network to pursue commerce in cyberspace can be exposed to considerable risk (Ghosh, 1998).

In the context of pensions it is debatable to what extent the Internet is able to satisfy consumer requirements for advice and information due to the complexity, intangibility and deferred end benefit of the product (Ennew et al. 1995). The financial intermediary provides the consumer with the necessary “financial know-how” in order to make the optimum investment decision (Harrison 2000).

On the other hand, various claims exist of the Internet as a tool to empower consumers (Bush, 2004; Wind and Mahajan, 2001; Rha et al, 2002). The Internet offers consumers unparalleled access to a massive body of knowledge and information with comparatively lower search costs relative to established sources of information. This has the potential to increase the bargaining power of consumers (Bakos, 1991; 1997; Veradarajan and Yadav, 2002; Porter, 2001) and redress power imbalances due to information asymmetry by providing access to information formerly only available to professionals. This facilitates choice and risk reduction that in turn enables consumers to exercise increasing control over their consumption activities. Consequently, it is believed that consumers are abandoning their former passive roles. Indeed, there is emerging empirical evidence that decision-making is improved through the use of computer technology (Ariely, 2000).

In an increasingly competitive business environment, financial institutions face resource decisions of whether to develop direct consumer

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