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Crafting Integrated Multichannel Retailing Strategies

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ABSTRACT

Multichannel retailing is the set of activities involved in selling merchandise or services to consumers through more than one channel. Multichannel retailers dominate today's retail landscape. While there are many benefits of operating multiple channels, these retailers also face many challenges. In this article, we discuss the key issues concerning multichannel retailing, including the motivations and constraints of going multichannel, the challenges of crafting multichannel retailing strategies and opportunities for creating synergies across channels, key retail mix decisions facing multichannel retailers, and the dynamics of multichannel retailing. We synthesize current knowledge drawn from the academic literature and industry practice, and discuss potential directions for future research.

INTRODUCTION

Multichannel retailing is the set of activities involved in *selling* merchandise or services to consumers through more than one channel (Levy and Weitz 2009). This definition distinguishes multichannel retailing from multimedia marketing that typically involves the use of multiple channels to simply communicate with customers. While prior work examines multichannel marketing in general (e.g., Neslin et al. 2006; Neslin and Shankar 2009), the focus of this article is multichannel retailing. Multichannel retailers are firms that engage in multichannel retailing and whose primary source of revenue is retailing activities. We focus on merchandise rather than service retailing, because the product management and delivery issues are significantly simpler for service retailing (such as travel, entertainment, and information) where transactions can be completed electronically and thus inspection, storage, and transportation of physical products is not necessary to complete a sale.

Several unique aspects of the retailing business make multichannel operations more complex and challenging. In general, retailers have to manage a large number of stock-keeping units (SKUs) in their assortment of products (usually not manufactured by the firm), make decisions and frequent modifications on many retail mix elements for each SKU, interact with numerous and often diverse groups of end users, deal with a large number of vendors, and be responsible for the logistic process of selling and delivering products to their end users. In addition to the operational complexities, the potential benefits afforded to customers are also significantly greater, as we will discuss, than simply using multiple channels to communicate with customers (Metters and Walton 2007; Agatz, Fleischmann, and van Nunen 2008). These factors call for a comprehensive review of issues concerning multichannel retailing and research development on these topics, which we provide in this article.

Multichannel retailing is not a new phenomenon, and a retailer can start from any one channel and move to other channels later. For example, Sears became a multichannel retailer in 1925 when it opened its first store to complement its catalog channel which was launched in 1886 (Sears 2009). Eddie Bauer and Spiegel's also started as catalog retailers and expanded to store operations later. Television shopping retailers HSN and QVC now have Internet channels. Nonetheless, while many retailers followed Sears' lead selling merchandise through both store and non-store (catalog, direct marketing) channels, these channels mainly operated as separate businesses and were not integrated. To a large extent, the emergence of integrated multichannel retailing was driven by the rapid expansion of the Internet as a new selling channel. In the mid-1990's, the Internet was viewed as a disruptive transformational technology (Christensen, Anthony, and Roth 1994) with respect to the retail industry. Futurists envisioned consumers abandoning stores and buying most products and services over the Internet. They predicted that store-based retailers would be replaced by Internet-savvy entrepreneurs who could harness this new technology to provide superior offerings to consumers (Zwass 1996).

Fifteen years later, the Internet appears to be more of a facilitating technology in many domains, enabling traditional store-based retailers to complement their store offering with online channels, to improve their operational efficiency, and to enhance the benefits provided to customers. These traditional retailers have evolved into multichannel operators, and they now dominate the Internet retailing space. More than 80% of a broad cross-section of U.S. retailers indicated that they sell merchandise through multiple channels. In a recent benchmark study, all of the large retailers and 94% of the "winners" (defined as the retailers with the best financial performance) were multichannel operators (Kilcourse and Rowen 2008).

Retail organizations are facing many new challenges and opportunities in the

multichannel retailing environment. There are also many questions to be answered by marketing researchers and industry practitioners. What motivates retailers to go multichannel and what constraints are holding them back? What are the major challenges in crafting multichannel retailing strategies and opportunities to create synergy across channels? What do multichannel retailers need to take into consideration for their retail mix decisions? And how will multichannel retailing evolve over time? In this article, we provide a broad discussion on these issues.

The rest of the article is organized as follows. In each subsequent section, we synthesize current knowledge based on the academic literature as well as industry practices, and discuss potential directions for future research. We conclude by summarizing the key topics for future research and by providing our predictions on some of the issues.

MOTIVATIONS AND CONSTRAINTS FOR GOING MULTICHANNEL

In this section we review the main motivations for retailers to operate multiple channels and the common constraints that have prevented some from doing so.

Motivations for Retailers to Operate Multiple Channels

Ultimately, the search for improved financial performance motivates traditional single-channel retailers—store based, catalog, TV home shopping, or Internet-based retailers—to evolve into multichannel operators. While the decision to sell through additional channels prompts concerns about cannibalization and negative spillover (Deleersnyder et al. 2002; Falk et al. 2007), research indicates that operating multiple channels can have a positive effect on financial performance (Geyskens, Gielens, and Dekimpe 2002). Some sources of the improved financial performance for multichannel retailers are: (1) low-cost access to new markets, (2) increased customer satisfaction and loyalty, and (3) creation of a strategic advantage.

Access to new markets. The market for store-based retailers is typically limited to the local trading areas of their stores. Thus, adding non-store channels (e.g. Internet, catalogs, mobile phones) enables retailers with limited locations to exploit economies of scope by expanding their markets without building additional stores.

In addition, researchers have segmented the retail market by channel choice, either store only, Internet only, or multichannel, and found that there is a growing segment of multichannel shoppers—consumers for whom a multichannel offering is particularly appealing (i.e. Kushwaha and Shankar 2007a).¹ There is substantial empirical evidence that multichannel consumers are an attractive market. On average, they spend more and have a higher lifetime value than single-channel consumers (Neslin and Shankar 2009). These consumers utilize multiple channels because the channels are differentially effective at satisfying their shopping needs (Konus, Verhoef, and Neslin 2008). With the rapid growth of Internet shopping, most consumers will become multichannel shoppers eventually, which means that segmentation based on channel choice may not be very useful in the future. More research is needed to identify the best segmentation scheme for multichannel retailers. We believe that segmentation schemes based on the effects on the consumer decision process of channel-specific activities and the benefits sought on specific occasions might provide more insights.

Customer satisfaction and loyalty. By using a combination of channels, retailers can better satisfy their customers' needs by exploiting the benefits and overcoming the deficiencies of each channel. For example, the store channel provides certain unique benefits, including: the potential to use all five senses when evaluating products, personal service, the option of cash payment, entertainment and social experiences, and immediate acquisition. However, to realize

¹ In most research (e.g. Rangaswamy and van Bruggen 2005; Neslin et al. 2006; Neslin and Shankar 2009), multichannel shoppers are defined as consumers who use multiple channels in the shopping process rather than consumers who buy products and services through multiple channels.

these benefits, consumers need to spend time and energy visiting store(s). The stores may not be open at convenient times for consumers. In the self-service format, such as supermarkets and discount stores, consumers may have difficulty locating knowledgeable sales associates to provide needed information.

Non-store channels overcome some of these deficiencies. Most non-store channels offer the convenience of buying merchandise whenever and wherever consumers want to, lower time and travel costs to make purchases, broader merchandise selections, and a physically safe shopping experience at their own homes or other locations of choice. In addition to these benefits offered by most non-store channels, the Internet channel, through interactivity, enables consumers to get as much information as they desire before making a purchase. Moreover, the web-based information can be tailored to the customers' needs.

By providing a greater array of benefits through multichannel operations, retailers can increase their share of customers' wallets. Customers who use a retailer's multiple channels buy more from the retailer than single-channel customers, and this relationship appears to be causal (Ansari, Mela, and Neslin 2008). In addition to increasing customer satisfaction and share-of-wallet, several studies report that offering multiple channels increases customer loyalty (Neslin and Shankar 2009). Nonetheless, Ansari, Mela, and Neslin (2008) and Gensler, Dekimpe, and Skiera (2007) find that increased usage of a retailer's Internet channel decreases loyalty. Verhoef and Donkers (2005) and Villanueva, Yoo, and Hanssens (2008) show that customers acquired through different channels or by different means vary substantially in their purchase behavior and loyalty to the firm. In addition, van Baal and Dach (2005) find evidence that the low cost of searching on the Internet increases the opportunity for free riding. In light of these mixed patterns, we believe that more research is needed on the factors moderating the channel usage-

retailer loyalty relationship.

Creation of a strategic advantage. The opportunities for multichannel retailers to develop a strategic advantage arise from their abilities to develop resources that are not easily detected or duplicated by competitors, such as (1) propriety customer information and (2) tacit knowledge for providing a seamless customer interface. These resources can build customer loyalty and reduce costs.

It is difficult for many store-based retailers to develop extensive customer purchase history databases because of their inability to link customers to transactions when the customers pay in cash or use third-party credit cards. To address this problem, many store-based retailers encourage the use of loyalty-program cards or ask shoppers for identifying information (e.g. telephone numbers). In contrast, all transactions through the Internet and catalog channels automatically collect customer information in order to bill and ship the product. Moreover, the Internet channel offers the opportunity to collect data about a consumer's online search behavior in addition to transaction data. Therefore, multichannel retailers have a greater opportunity to develop extensive, propriety information about their customers and can use this information to more effectively target their marketing activities.

Another strategic resource possessed by effective multichannel retailers is the tacit knowledge associated with integrating multiple channels. Consumers desire a seamless experience when interacting with multichannel retailers. For example, they want to be able to buy a product through the retailer's Internet or catalog channels and pick it up or return it to a local store; find out if a product offered on the Internet channel is available at a local store; and, when unable to find a product in a store, determine if it is available for home delivery through the retailer's Internet or catalog channels. As we will discuss in the following section, providing

this seamless interface is complex and challenging. Tacit process knowledge is needed to effectively provide these services, which cannot be readily copied by competitors (Spender and Grant 1996).²

Constraints for Expanding to Multichannel

While many retailers have become multichannel operators, some have intentionally shunned this strategy so far (e.g. Amazon.com, Netflix, and Blue Nile). There are three key reasons that have kept these retailers from pursuing multichannel: (1) consumer access to broadband Internet service, (2) operational difficulties of integration, and (3) costs of multichannel offering.

Broadband Internet Access. In the early stages of Internet development, the benefits of operating multiple channels by adding an online channel were questionable because of the limited Internet access among the public, particularly broadband access. This has now become less of a concern in the United States, where Internet access is almost universal among the target segments of most retailers. In 2008, 73% of the adults in the U.S. and over 85% of adults between 19 and 49 with family income over \$50,000 used the Internet (PEW 2008). Over 95% of U.S. teenagers, the market of the future, used the Internet and over 65% had broadband access at home (PEW 2007). Internet access, however, is still a constraint in some countries. For example, broadband penetration is less than 10% in both Mexico and Turkey (OCED 2008).

Operational Difficulties. While there appear to be demand synergies for multichannel offerings (customers prefer to interact with a retailer anytime, anywhere through multiple, seamless interfaces), operational synergies may be difficult to achieve since unique skills and

² Knowledge can be tacit or explicit. Tacit knowledge is typical “know how” developed through direct experience, difficult to articulate and shared through interactive face-to-face communications. Explicit knowledge can be more precisely and formally stated. It is communicated by procedure manuals, product data sheets, and computer software (Polyani 1966).

resources are needed to effectively manage each channel. For example, retail distribution centers (DCs) supporting a store channel are designed to move merchandise cartons from inbound to outbound trucks with minimal handling. With cross-docking, the cartons often remain in the DC for less than a day. In contrast, the DCs supporting a catalog and/or Internet channel are designed to receive merchandise in cartons and then break the cartons down to individual items for picking, repacking, and shipment to individual customers. These channels also require different packaging to accommodate shipments of individual items as opposed to cartons.

Skills for allocating merchandise and managing inventories in a channel with thousands of stores are much more demanding than the skills required to manage inventory in a few DCs. The channels may have different target markets requiring unique merchandise and pricing. Due to these operational differences, many multichannel retailers have separate organizations for each channel and even outsource channel management, which further increases the challenges in achieving demand synergies.

Costs of multichannel offering. For some catalog and/or Internet channel retailers, the costs of opening stores with national coverage may be prohibitive. In addition to the initial investment, these non-store retailers may face considerable inefficiencies in building a store channel due to their lack of knowledge and experience in evaluating locations, negotiating leases, maintaining stores, tailoring the assortment to local markets, and selecting, training, and managing a large workforce. These factors may explain why few non-store retailers have added a store channel to their operations.

Retailers providing high levels of personal services also may be reluctant to add non-store channels or sell their high-end merchandise in non-store channels because of concerns about the negative impact on their brand image. For example, Tiffany's offers relatively

inexpensive jewelry items on its website, but sells its signature diamond engagement rings only through the store channel. For this important product category, Tiffany's chooses to use its website to drive consumers to its stores. Perhaps the retailer is concerned that its customers will not get the necessary personal assistance to produce a satisfactory shopping experience if they buy a diamond engagement ring through its low customer service, non-store channel.

CHALLENGES IN CRAFTING MULTICHANNEL STRATEGIES

Retailers face four major challenges in crafting successful multichannel strategies: 1) organizational structure; 2) data integration; 3) consumer analytics; and 4) evaluation and performance metrics. We discuss each of them in the section that follows, with an emphasis on the topics that have not been covered in-depth by other articles.

Organizational Structure

Creating the appropriate organizational structure is arguably the greatest challenge facing all multichannel retailers. Most retail corporations manage their channels in a decentralized fashion, and many of them maintain separate teams of inventory management, merchandising, marketing, finance, analytics, and even product development within each channel. At the early stage of e-commerce development, some retailers intentionally gave a great deal of independence to their Internet channel to attract executive talent and to encourage its growth. For example, when Wal-Mart Stores Inc. ventured into Internet retailing in 2000, it established the walmart.com subsidiary with a fresh management team and chose to locate its headquarter near Silicon Valley—rather than Bentonville, Arkansas—to have access to a deep pool of Internet executive and technical talent. Even though Wal-Mart is known for its centralized organizational structure, walmart.com was given a high degree of autonomy and was intended to target a

higher-income segment of consumers than its store operations. Most retailers with store and catalog operations also maintain a separate organizational structure, partly due to the substantial differences in the fulfillment process and merchandising techniques required for each channel, and partly due to historical reasons if the company started out as a store-only or catalog-only business. For many of those companies, the new Internet channel, if available, is often under the same management umbrella as the catalog, and is now called the direct or interactive retail division (e.g., Eddie Bauer, JCPenney, Victoria's Secret). With the rapid growth of the Internet channel, many retail organizations have seen the elevation of the head of direct or e-commerce channels to their senior executive ranks, with the direct channels reporting directly to the COO or CEO of the company (Shop.org and J.C. Williams Group 2008).

The advantages of a decentralized organizational structure include: 1) greater focus and more flexibility in response to the unique competitive situations in each channel; 2) allowing each channel to adjust its retail mix to serve different market segments; 3) helping attract and retain executives with experience in a particular channel (Gulati and Garino 2000). Yet the decentralized structure has also caused increasingly thorny problems, while retailers strive to create cross-channel synergies and consumers expect a seamless experience in a multichannel retail environment. It creates duplicate teams and thus inefficiency in the business processes, causes internal conflicts across channels, and often leads to inconsistent customer experiences due to lack of coordination in merchandising activities across channels. According to a study by Gartner Inc., 76% of multichannel retailers do not fully coordinate brand marketing, and 74% of them do not fully coordinate promotions planning across channels (InternetRetailer.com 2006).

There has been very little research in the marketing literature on the most effective organizational structure for multichannel retailers. Consulting firms and retail practitioners are

ahead of the curve in researching this topic. A recent industry study finds that even though many retailers with independent structures have seen tremendous growth and profitable returns, over time, the lack of integration has resulted in inefficiency and customer confusion, and that cross-channel success will be most likely when it becomes a top-down mandate (Shop.org and J. C. William Group 2008). This implies that future academic research needs to look at a longer time horizon and not just examine short-term sales growth or profitability. Given the complexity involved in formal structural changes, the consulting firm Deloitte suggests that retailers also consider the idea of building informal organizational structures that support a multichannel environment, such as developing a cross-functional steering committee and forming cross-channel leadership and specialist networks (Deloitte 2007). In fact, this so-called “semi-integrated” structure seems to be the most common structure among multichannel retailers currently (Shop.org and J. C. William Group 2008).

We believe the decision on organizational structure is not a dichotomous one but rather a matter of degree of integration vs. standardization across individual functions. There are no one-size-fits-all solutions. Each multichannel retailer has to decide for itself what to integrate and what to keep separate. It needs to take into consideration the company’s history and current management structure, branding strategy and compatibility in each channel, existing distribution and information systems and their transferability to a new channel, and the need to attract executive talent and outside capital (Gulati and Garino 2000). More studies are needed to examine the nuances, and there is an urgent need for comprehensive research on these issues.

To encourage cross-channel coordination, retailers must also reexamine and revise their current compensation systems, ranging from those for the top management executives to sales associates and customer service representatives who interact with consumers at the front line.

“People always do what they are incented on,” said Paula Rosenblum, director of Retail Research at the Aberdeen Group. She argues that designing the right compensation incentives is an easy way for retailers to embrace the concept of multichannel within the current (decentralized) organizational structure (Schuman 2004). But designing an ideal compensation system brings a special set of challenges. If the catalog channel brings additional sales to stores and the Internet channel, how should it be properly credited when the additional sales do not show up on catalog’s accounting books? How can retailers reward store associates who do an excellent job cross-selling merchandise available only in the online or catalog channels? How can they motivate store associates to provide flawless service to customers who come to their stores to return merchandise bought from another channel? Retailers need to give careful considerations to these types of questions and design an effective compensation system to minimize conflicts and encourage and reward collaboration across channels. These challenges are also related to the performance metrics issue that we will discuss shortly.

Data Integration

Another major challenge in crafting successful multichannel strategies is to build an integrated information technology (IT) infrastructure so that data across channels can be linked and analyzed in a holistic manner. Even though retailers differ in their preferences on whether to integrate or separately manage many key functions, there is a general consensus on the need to establish centralized data warehousing capabilities (Shop.org and J. C. William Group 2008). There are two critical aspects in dealing with this challenge. The first is to establish an IT infrastructure to collect and process shopping and purchase data from all channels, i.e., the inward flow of information. The second is to know what insights to extract from the data and how to package and deliver the relevant, and only the relevant, information back to decision

makers in each channel, i.e., the outward flow of information.

The traditional data collection and management approach is centered around each channel, which means that many retailers do not have the ability to track transaction information across channels and have no way to measure the profitability of their multichannel customers. Multichannel strategies call for a customer-centricity approach to data integration (IBM 2008). For example, direct channels lend themselves very well to the process of uniquely identifying a customer and tracking her behavior over a longer horizon. However, when the same customer interacts with the firm through a traditional brick-and-mortar store, it is challenging for retailers to link this behavior to her purchase history created in direct channels. A large number of retailers are unable to link these two separate databases, and thereby miss the true value of a multichannel customer. The retailers which can accurately link the two databases can generate a data warehouse which permits them to measure customer value, target appropriate marketing resources, track customer evolution in different stages, etc. This integral and unified view of customer purchase behavior is a key to using customer transaction data in building CRM and resource allocation models. (See Verhoef et al. 2010 in this special issue for greater details on the customer-centricity approach to data integration.)

Consumer Analytics

In today's retail environment, consumers may browse catalogs for merchandise, search for product information online, make purchases in brick-and-mortar stores, and get their post-purchase services through call centers. The increasingly multichannel nature of consumer shopping and purchase behavior calls for a better understanding of their decision processes and new approaches to monitoring and measuring their experience, satisfaction, and loyalty with a retailer (Rangaswamy and van Bruggen 2005). For example, retailers need the ability to link

consumers' search behavior with their purchase behavior, which may involve using clickstream data generated through electronic channels with shopping path analysis data generated through in-store monitoring in conjunction with an integrated database of each consumer's transaction data across channels. In addition, they need to pay attention to the effects of psychological factors such as goals and biases on consumers' channel choice decisions (Balasubramanian, Raghunathan, and Mahajan 2005). The article in this special issue by Dholakia et al. (2010) provides in-depth discussions on how to further our understanding of changing consumer behaviors. And we refer the readers to Neslin and Shankar (2009) for an excellent review of the key issues in and strategies of multichannel customer management in a context beyond retailing.

We would like to note an important issue that retailers need to be mindful of when honing their consumer analytics skills: security and privacy concerns. While collecting customer information can enable retailers to provide a better value, many consumers are concerned about disclosing information to retailers, especially through an Internet channel. These concerns are rising after five years of declines. Sixty-one percent of adult Americans said that they were very or extremely concerned about the privacy of personal information when buying online, an increase from 47% in 2006 (Digital Future Study 2008). More research is needed to understand how multichannel retailers can mitigate these concerns and encourage information disclosure so that they can exploit the full capabilities of a multichannel offering (e.g., Andrade, Kaltcheva, and Weitz 2002; Nam et al. 2006).

Evaluation and Performance Metrics

There is a pressing need to develop and implement formal performance metrics that take into account the idiosyncratic nature of each channel and cross-channel effects of any retail mix decisions, and motivate multichannel collaboration. An Aberdeen Group study finds that most

multichannel retailers do not measure the value of their multichannel initiatives on a regular basis (Aberdeen 2005). To make things more complicated, some of the well-accepted performance measures—such as same-store sales (“comps”), sales and gross margin per square foot (for brick-and-mortar stores), and sales and gross margin per square inch (for catalogs)—do not apply to the emerging Internet channel. Stability of the customer base, sales forecasting accuracy, and risk profile may also differ across channels. In addition, there is little consensus on how to measure the impact of marketing actions in one channel on consumer awareness, brand preference, sales, profit, and customer satisfaction in the retailer’s other channels. Neslin and Shankar (2009) call for including the cross-channel elasticity matrix as a key element in the decision support system for cross-channel decision-making. Marketing researchers have attempted to address some of the “cells” in this matrix (e.g., Biyalogorsky and Naik 2003; Hitt, Xue, and Chen 2007; Shankar and Kushwaha 2008), yet much more needs to be done by academics as well as practitioners. Development in this area will have a direct impact on the cross-channel performance metrics that retailers adopt in the future.

OPPORTUNITIES FOR SYNERGIES ACROSS CHANNELS

Great challenges call for decisive actions. Multichannel retailers must utilize their resources to proactively create opportunities for synergies across channels. With the assumption that retailers will be more likely to exploit synergies if they know where to look for them, we will propose a categorization of potential synergies for multichannel retailers in this section.

To facilitate this task, we conducted exploratory interviews with senior executives at three Fortune 500 multichannel retailers (general merchandise retailer, furniture store, and financial services). These interviews and our review of the quickly-emerging literature on

multichannel marketing produced five categories of potential synergies:

1. *Cross-channel customer communication and promotions.* One of the most common synergies is the use of one channel to promote another. This extends beyond the potential of multiple channels to increase the efficiency of advertising (e.g., television advertising can drive traffic to stores, telephone centers, or Web sites). In many categories, customers may “shop” in one channel and buy in another (Frambach, Roest, and Krishnan 2007 and Verhoef, Neslin, and Vroomen 2007). In some cases this behavior is anticipated (e.g., automobile purchases), but in other instances customers may encounter unexpected questions and require person-to-person interactions (phone centers) or inspection (stores). Especially when conversion and up-sell rates differ among channels, retailers may desire to direct customers to another channel to complete the purchase.
2. *Leveraging cross-channel information and marketing research from one channel to improve decisions in other channels.* Routinely, multichannel retailers may be able to gather information on customers or purchase patterns in one channel to improve sales in another. For example, online sales may yield information on the conversation rates between display and sales for various products that inform the choice of products for valuable in-store display space. Since online displays and conversions are often faster, easier, and cheaper to manipulate and monitor, the entire channel may be made more productive with information sharing of this nature. The executives interviewed also reported that budget- and credit-conscious consumers often use the Internet channel to establish the affordability of products available from stores, agents, or telephone and their own credit-worthiness.
3. *Cross-channel price comparisons.* In some cases, companies have established a presence in multiple channels to complement the pricing strategy of the other channels. For example, showcase stores, such as those maintained by Nike, Sony, and Levi’s have helped to establish reference prices for other channels. When the same companies begin to sell online, direct to consumer, the prices they charge in this channel may help control the threat of double marginalization (Chiang, Chhajed, and Hess 2003).
4. *Digitization.* Digitization of products such as operating manuals, bills, warranty documents, and registrations and using the Internet to distribute and/or process them can reduce personnel costs in all channels. In addition, the production and distribution of these products through online channels increases the convenience for customers and frees up service personnel for more profitable and higher value-added customer interactions.
5. *Shared common physical assets and operations.* Spreading fixed costs across channels can create economies of scale and scope (Neslin and Shankar 2009). For example, when Progressive Insurance developed a database that enabled quick and accurate price comparisons with competitors, that capability was extended from inbound telephone channels to the Web, and then to agents. Progressive’s Web site allows customers recruited by agents to check bills and add coverage. A cross-channel return policy also creates cross-selling opportunities, because retailers can encourage customers to shop in the stores when they come to return online and catalog orders. Neslin and Shankar

(2009) report that one firm experienced a 20% increase in sales from stores after using stores to accept returns from online sales. However, these increases in revenues and retention may take time to materialize and, given the costs required to support additional channels, in the short run, customer profits may decline (Hitt, Xue, and Chen 2007).

MULTICHANNEL RETAIL MIX DECISIONS: HOMOGENIZATION VS. HARMONIZATION

Having discussed the “big-picture” issues in the previous sections, we now focus on some of the key retail mix decisions that all multichannel retailers have to make on a regular basis, such as assortment selection, pricing, promotion, inventory management, fulfillment, and return policies for each channel and the degree of coordination on these decisions across channels. These retailers have to address questions such as: parity in pricing across channels, what markdowns and promotions to implement in different channels, how to determine the product assortment and appropriate inventory level in each channel, and whether to allow return of merchandise across channels. At one extreme of the continuum is homogenization of offerings in all channels, while at the other extreme is the strategic choice made by retailers to maintain the distinct characteristics of each channel. There are very few retailers that would be classified at either end of this continuum. Instead, they have to determine the extent of harmonization for each retail mix instrument across channels. In the subsections below, we highlight research progress and unanswered questions with regard to multichannel pricing, assortment and inventory management, return policies, and promotions.

Pricing

Firms have to strike a delicate balance between consumers’ expectations of prices in different channels and the cost structure of each channel (Grewal et al. 2010). Reduction in information asymmetry and buyer search costs has led to on-average lower prices for products of comparable quality sold through electronic channels compared to traditional brick-and-mortar

stores (Ancarani and Shankar 2004; Pan, Ratchford, and Shankar 2004; Ratchford 2009). In addition, research also suggests that, after controlling for differences in service quality, prices in electronic channels of a pure-play e-tailer are equal to or lower than those in electronic channels of brick-and-mortar stores (Pan, Ratchford, and Shankar 2002). These lower prices have led to modification in consumer expectations of price asymmetry between electronic channels and traditional brick-and-mortar stores.

Nonetheless, the cost structure associated with each channel is distinct. In general, a large component of the costs for direct channels are variable costs due to order picking, packing, shipping, processing returns, etc., while costs of brick-and-mortar stores are largely dominated by fixed costs such as real estate investments, utilities, insurance, merchandising, and labor costs. Therefore, from an economics point of view, direct channels should charge higher prices due to their higher marginal costs, while brick-and-mortar stores are more sensitive to the need to generate sufficient sales volumes to cover their fixed costs and thus should be priced more aggressively. This inherent difference in the cost structure puts the direct channels at odds with consumers' expectations of lower prices in these channels. Retailers are thus faced with the dilemma of pricing in accordance with consumer expectations while still maintaining profitability in different channels.

The coordination problem across channels in determining pricing is exacerbated when firms are structured around channels and the key decision makers are different in each channel. This may lead to dramatically different prices across channels as managers make independent decisions to maximize their gains within each channel. This conjecture is corroborated by research which suggests that the pricing strategies adopted by multichannel retailers have changed over time such that prices in electronic channels of a multichannel retailer are more

similar to those of pure-play e-tailers than to prices in other channels of the same retailer (Xing, Yang, and Tang 2006). Therefore, in an effort to compete with pure-play e-retails, multichannel retailers may need to adapt their pricing strategies despite differential cost structure and strategic objectives.

Having said this, it can also be argued that firms should charge differential prices for the same product in different channels as long as the pricing mechanism is designed synergistically across channels. For example, for products with higher picking, packing, shipping or returns costs, it is more appropriate to set higher prices in direct channels, thereby driving customer traffic to brick-and-mortar stores. Similarly, for low-margin products that require brick-and-mortar stores to carry large assortments, it makes more sense to set lower prices in direct channels to drive up the volume in the latter. These pricing decisions illustrate the intricate balance between homogenization versus harmonizing the decisions to enhance the total profitability of the entire retail organization.

Assortment and Inventory Management

For multichannel retailers carrying hundreds of product categories and thousands of SKUs, harmonizing the product assortment across channels is a complex yet strategically important decision. A customer's channel choice is likely to depend on the breadth and depth of assortment available in each channel. The store choice literature suggests that assortment ranks right behind location and price as the major driver of store choice (Hoch, Bradlow, and Wansink 1999). Store choice is also driven by variety-seeking behavior (Popkowski Leszczyc and Timmermans 1997). In a multichannel shopping environment, variety seeking could be reflected by the purchase of different assortments across channels. Customers who seek a higher degree of variety may have to use multiple channels to fulfill their requirements (Kumar and Venkatesan

2005). The cost of carrying merchandise varies across channels. For example, retailers can carry a very broad and deep assortment in electronic channels (Alba et al. 1997; Agatz, Fleischmann, and van Nunen 2008), while it is far more expensive, if not impossible, to carry an equally large assortment in the brick-and-mortar channel due to capacity limits of individual stores and their higher inventory carrying costs. Thus, multichannel retailers have to carefully determine the appropriate assortment for each channel while maintaining the breadth of assortment across channels to remain competitive.

Multichannel retailers have a unique opportunity to draw on the strengths of different channels in order to enhance customer satisfaction while reducing merchandising and inventory carrying costs. Indeed, most multichannel retailers now carry larger assortments in their direct channels than in brick-and-mortar stores, and many allow and encourage cross-channel purchases when an item is out of stock or never carried in a certain channel. For example, JCPenney and Macy's carry a smaller assortment in their stores but provide customers with the option of ordering additional sizes, colors, and designs through in-store Internet kiosks or catalogs. Another excellent example of this policy is Wal-Mart, which carries a much wider assortment of products on its website, thereby limiting the amount of inventory which it has to carry in stores. Similarly, several retailers carry only display models of larger items that take up more floor space and are more expensive to ship and to store. Such an approach permits customers to check the product in the store and order it from a direct channel.

Return Policies

Research has shown that handling product returns is an important component of firms' CRM strategies. Depending on the product category, product return rates can range from 10% to 25% of the orders (Hess and Mayhew 1997). Kumar and Venkatesan (2005) show that there is

an inverted-U relationship between returns and the likelihood of multichannel shopping. In other words, customers who return products in the middle range are more likely to shop through multiple channels. Similarly, research shows that current return behavior has an inverted-U relationship with the likelihood of future purchases and customer lifetime value (Petersen and Kumar 2009). It is also shown that increase in leniency of return policy enhances trust and convenience and hence leads to a higher likelihood of repeat purchases. However, it also leads to a higher likelihood of repeat returns (Wood 2001). Similarly, Anderson, Hansen, and Simester (2009) show that as the option value of returns is increased, customers are more likely to make repeat purchases. Kushwaha and Shankar (2007b) show that ignoring customer return behavior in marketing resource allocation decisions may lead to suboptimal outcomes. Using data from a high-end multichannel retailer of men's apparel and accessories, they find that customers transacting through direct channels (catalog and Internet) and multiple channels have disproportionately higher returns (up to 22% of ordered items) and that not accounting for these returns leads to higher than optimal allocation of resources to these customers.

Some multichannel retailers have capitalized on product return occasions and treat them as additional touch points which permit the retailer to strengthen their relationship with customers. These retailers not only allow shoppers to pick up their online purchases from stores, but also let them return online purchases in the stores. This policy not only enhances customer convenience and hence satisfaction, but also provides the retailer with an opportunity to cross-sell and up-sell during a customer's store visit. Nonetheless, such policies create havoc for a retailer's supply chain. Since most brick-and-mortar stores of multichannel retailers carry a smaller assortment, they have to deal with returned items that are not sold in-store and hence have to be shipped back to their warehouses. This reverse supply chain leads to a loss of

profitability. Therefore, multichannel retailers need to carefully consider issues such as 1) what the optimal return policy should be, 2) which product categories brought from one channel should be permitted to be returned in another channel, and 3) whether cross-channel returns should be subject to restocking fees and other charges.

Promotion

Prior research on promotions in the context of multichannel retailing is fairly sparse. Several studies have shown that firms can actively use promotions as tools to encourage customers to adopt or migrate to a certain channel (Ansari, Mela, and Neslin 2008; Burke 2002; Teerling et al. 2005). Verhoef, Neslin, and Vroomen (2007) find that customers are more likely to use Internet rather than catalog or store channels for finding price promotion deals. They suggest that firms should use these findings to synergistically design their promotion strategies such that coupons offered in one channel are redeemable in other channels. Similarly, Kushwaha and Shankar (2007b) find that multichannel customers are more likely to take advantage of price promotions than single-channel customers. Multichannel customers respond to these discounts by purchasing more frequently and in larger orders.

Zhang and Wedel (2009) show that loyalty promotions are more profitable in online stores while competitive promotions are more effective in offline stores. They also identify optimal levels of customized versus undifferentiated promotions for each channel and find that the benefit of customization tends to be higher in online stores than in offline stores and varies by the product category under consideration. Conventional wisdom suggests that the role of most promotions, especially price promotions, is tactical in nature and primarily aimed at short-term benefits, inducing trials, stimulating demand, or countering competitive promotions. The above online/offline comparisons suggest that a multichannel retailer can use promotions

strategically to drive customer traffic to desired channels. In addition, we believe that promotions can be used strategically to induce product category take-offs in desired channels, to manage demand across channels and optimize the supply chain, and to manage multichannel competitions more effectively.

We would like to encourage future research to pay special attention to developing decision support systems for optimizing pricing, promotions, assortment, and inventory across channels, and identifying strategies that allow retailers to capitalize on cross-channel effects and maximize profits for the entire organization.

DYNAMICS OF MULTICHANNEL RETAILING

In this section, we share our view on the dynamics and the future of multichannel retailing. Multichannel retailing is an ever-evolving phenomenon. Neslin and Shankar (2009) note that some worry that “multichannel marketing is just a prisoner’s dilemma in sheep’s clothing.” The same authors observe that a primary consideration in deciding whether firms should pursue multichannel strategies is the issue of “cross-channel cannibalization versus synergy.” We agree with this assessment and note that multichannel strategies are typically implemented by sequentially adding new channels to existing ways to market. For example, Select Comfort began with direct sales through inbound telephone calls, added a Web site, and then brick-and-mortar stores. Progressive Insurance sold through independent agents, added direct telephone sales, and finally allowed customers to purchase on the Web. JCPenny gained prominence first as a catalog marketer, then as a brick-and-mortar retailer, and, most recently, added a Web presence.

We believe that, for these and most other retailers, expanding to multichannel operations

means balancing the desire (or need) to sell their products and services in the ways that consumers want to buy them, addressing emerging segments with different needs with evolving technologies, and mitigating channel conflicts (Ansari, Mela, and Neslin 2008). Much of the conflict expected from adding new channels comes from fears of cannibalization (merely shifting sales from one channel to another) and differences in prices and margins across channels. This fear can be partially alleviated by the finding of Dholakia, Zhao, and Dholakia (2005) that when a retailer adds new channels for interaction, customers add these channels for shopping instead of replacing their existing channels. If multichannel retailers had only encountered cannibalization and conflict in the development of multiple channels, the phenomenon would have been short-lived. The synergies we have discussed previously, on the other hand, represent potential increases in overall productivity and customer value that stem from the ability of retailers and shoppers to employ combinations of channels.

The ability of multichannel retailers to discover, develop, and fully exploit the potential synergies among multiple channels may depend on the degree of commitment to the new channels, and the commitment is likely to depend on early financial returns from expanding to multiple channels. In the beginning, companies that have had success with one channel format are likely to be skeptical or agnostic with respect to the potential of emerging channels. Experimentation or separate organizations that are designed to develop “options” to exploit new channels may not immediately yield or permit exploitation of the potential synergies discussed above. In fact, if not properly designed and positioned, such experimentation may produce conflicts and what some have termed “dissynergies” (Falk et al. 2007), which is even worse than mere cannibalization.

Furthermore, emerging research suggests that caution should be taken in evaluating the

effectiveness of a multichannel retailing program on the basis of short-term results alone. The effects of opening a new channel can be multifaceted, and the benefits of embarking on a multichannel strategy can take some time to develop. For example, Avery et al. (2009) examined the effects of opening a retail store on existing direct-channel sales and found a complex set of interactions. They found that the retail store had an immediately detrimental effect on sales in the direct channels, with both catalog and web-based sales suffering in the short run. Yet, both of these channels benefited from the presence of the retail store in the long run, with sales increasing over time. The effects of the retail store opening on customer acquisition and retention provided additional insight into how the channel was working. Although existing customers tended to purchase less frequently in the direct channel immediately after the store opened, they also tended to come back to the direct channel over time. The story was even rosier for new customer acquisitions. The store opening did not immediately slow new customer acquisitions, and these customers arrived at a faster rate over time.

Over time, new organizational forms may emerge as the potential benefits for new channels are realized. Certainly, the ability of a retailer to exploit synergies may well depend on how the organization is structured (e.g., ranging from separate silos for the channels to centralized operations). Bagge (2007) cites a multichannel “maturity model” developed by Archabal and Kalyaman that consists of the following stages:

1. Creating presence (new channel is up and running);
2. Aligning fundamentals (basic value propositions coordinated);
3. Achieving proficiency (adept at function integration of customer processes);
4. Leveraging across channels (exploiting channel-capabilities and collaboration);
5. Optimizing operating mode (optimal resource allocation and achieving repeatable cross-

channel processes).

This would be an interesting model to validate for its potential to predict and structure multichannel strategy development and the evolutions of synergies. Only the last two stages seem to promise the synergies that we have discussed in this section.

Looking into the future, newer channel formats will continue to be developed and added to multichannel retailing. With the widespread adoption of sophisticated mobile communication products (e.g. broadband cellular phones) and the introduction of portable two-sided digital devices such as Apple's iPod/iTunes and Amazon's Kindle, we believe that mobile retailing will emerge in the foreseeable future. Marketers are already embracing the mobile technology (see Shankar et al. 2010 in this special issue for an in-depth discussion). Its implications for multichannel retailing promise to be a fertile research area. No matter what specific mobile retail platforms may dominate, we are confident that the mobile channel will bring new challenges and opportunities for multichannel retailers and profoundly reshape the retailing landscape, just as the Internet channel has done to date.

SUMMARY OF DIRECTIONS FOR FUTURE RESEARCH

The past fifteen years has been a period of rapid growth in the practice of integrated multichannel retailing, mirroring the rise of the Internet as a nearly ubiquitous tool that firms use to interact with customers. We see multichannel retailing as being on the cusp of a new era in which firms start demanding more from their investments, with particular emphasis being given to financial performance in light of the current economic crisis. This presents a great opportunity both for firms that are looking to gain a competitive advantage through multichannel retailing and for researchers who are interested in helping them make more informed decisions. We

conclude by highlighting several of the themes discussed in this paper that may lead to particularly interesting research topics and by providing our predictions on how the practice will continue to develop. Table 1 provides a summary of the key issues, current knowledge, topics for future research, and our predictions that are covered in this article.

*** Insert Table 1 about here ***

We believe that the practice of multichannel retailing will become nearly universal in the upcoming years, but the ways in which firms conduct this practice will diverge greatly. Some retailers will compete by offering very homogenous experiences across channels, so that consumers have the same experience with the brand no matter where they choose to shop. Other retailers will compete not only by tailoring each channel's strength, but also by harmonizing how the channels work together so that the sum is greater than its parts. This raises many questions that might be addressed through future research. For example, how do the firms that compete through homogenization differ from those that compete through harmonization? Does channel homogenization lead to more consistent perceptions of a brand? Do different channels assume greater importance at different stages of the buying process? If so, how should retailers organize their channels to attract and retain more customers?

A leading challenge in practice is to determine how to set up an organizational structure to manage multiple channels. Currently, retailers tend to manage each of their channels separately, as opposed to having a common person to which all channels report. Although channel conflict is bound to exist in any organization, a silo managerial approach seems to heighten the problem. Research would be helpful in addressing the question of whether retailers with a common reporting structure get more out of their channel assets than those with silos. Does having a CMO who coordinates pricing and promotion decisions facilitate cooperation

among channels for customers? Do these retailers make more consistent pricing and promotional decisions? Do customers of these companies have a more coherent experience as they migrate across channels? In turn, does this make them more loyal to the company? How should incentives be structured to facilitate the right cooperation among division managers?

A parallel opportunity for research exists in helping firms get more out of the information that they collect about customers. Currently, customer data are rarely analyzed to understand how individual customers behave across channels. This, however, seems to be the key to understanding the intricacies of how the channels work together. Research has shown that introducing price promotions can hurt demand from existing customers, but can boost it from new ones (Anderson and Simester 2004). We might ask related questions about pricing and promotion decisions across channels. Do customers tend to visit all channels before making a purchase if prices are allowed to vary across them, thereby slowing down their decision-making process? Or does price discrimination lead to greater profitability? Does inter-channel competition tend to lead to greater customer acquisition because all channels are working hard to acquire new customers, or does it lead to waste? Answering these questions will require firms to develop very complex decision support systems and become “rocket science” retailers. The best retailers will distinguish themselves through their ability to use data in a meaningful way.

Given that data analysis is bound to become more important in multichannel retailing, another area primed for new research is how to set the boundaries of consumer privacy. Although both firms and consumers benefit when offers can be tailored to individuals’ needs, the issue of consumer privacy is being brought to the fore with highly publicized cases of security breaches (Stone 2009) and the increased prevalence of social networking. Thus, we predict that firms will be under greater scrutiny from both regulators and consumers about how they store

and manage the transactional data that they collect. It will become their burden to prove that the information they collect provides a substantial benefit to consumers, and we believe that they will often be able to make this case.

The future of multichannel retailing will provide even more fascinating research opportunities. We believe that mobile retailing will emerge as a powerful new channel format and that it will have a profound impact on the retail landscape. It will provide new challenges and opportunities for multichannel retailers, as well as impose new research questions for academics. For example, what mobile retail platforms will emerge and thrive? How can retailers integrate across these platforms and with other channels? How should they decide on exclusivity within the value chain (Eisenman, Parker, and Van Alstyne 2006)? Will mobile marketing bring back the importance of store locations now that retailers can track the movement of consumers? And how can retailers utilize the mobile technology to improve their efforts of customizing retail mix offerings?

What makes multichannel retailing a particularly interesting area of research is that the problems are both complex and lend themselves well to extensive field testing. Many interesting questions will be asked and answered as firms and researchers try to come to grips with them.

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Table 1. Summary of Key Issues and Future Research Topics on Multichannel (MC) Retailing

Key Issues	Current Knowledge	Future Research Questions	Our Predictions
Motivations for going MC	<ul style="list-style-type: none"> • MC retailers are more profitable than single-channel retailers in general • MC customers are more profitable than single-channel customers • MC shopper segments are growing while the single-channel segment is decreasing 	<ul style="list-style-type: none"> • What is the best segmentation scheme for MC retailers? 	<ul style="list-style-type: none"> • Almost all retailers will have MC offerings. • Almost all customers will shop on the Internet and in stores.
Constraints for going MC	<ul style="list-style-type: none"> • The common constraints include: 1) consumer access to broadband Internet service; 2) operational difficulties of integration; and 3) costs of multichannel offering. 	<ul style="list-style-type: none"> • What are the unique resources needed to be a successful MC retailer? • How can retailers incentivize customers to stick with their firm during the information search and purchase phases? 	<ul style="list-style-type: none"> • The ability to utilize multiple channels synergistically will be a prerequisite for successful MC retailing.
Challenges in crafting MC retailing strategies	<ul style="list-style-type: none"> • Most MC retailers use decentralized or semi-integrated organization structures. • There is a general consensus on the need to establish centralized data warehousing capabilities. • Consumer shopping and purchase behavior is increasingly MC in nature. • Many commonly used retail performance measures don't apply to all channels or are not comparable across channels. 	<ul style="list-style-type: none"> • What is the most appropriate organizational structure for an MC retailer? What are the moderating factors? • How should incentives be structured to facilitate cooperation across channels? • Deeper understanding of the impact of marketing actions in one channel on consumer awareness, brand preference, sales, profit, and customer satisfaction in a retailer's other channels. 	<ul style="list-style-type: none"> • There are no one-size-fits-all solutions to the organization structure question. • Most MC retailers will build integrated data warehouses. What will distinguish them is their capability of utilizing the data. • MC retailers will be under greater pressure to mitigate concerns about consumer privacy.

		<ul style="list-style-type: none"> • Development of retail performance metrics for MC comparisons. 	
Opportunities for synergies	<ul style="list-style-type: none"> • Synergies can be created through cross-channel promotion, communication, information sharing, digitization, and sharing of common assets. 	<ul style="list-style-type: none"> • What type of MC retailers under what conditions are more likely to suffer from cannibalization/dissynergy? 	<ul style="list-style-type: none"> • MC retailers will have to find the proper degree of harmonization and excel by clearly understanding the role each channel should play in their strategy.
MC retail mix decisions	<ul style="list-style-type: none"> • Prices tend to be lower in e-channels than in brick-and-mortar stores, and price gaps between pure-play e-tailers and MC retailers in their e-channels are shrinking. • Coordinating pricing strategies across channels can increase firm profits compared to strategies aimed to maximize profits within channels. • Interactive channels enable retailers to carry larger assortments and/or unique merchandise. • Loyalty promotions are more profitable in online stores while competitive promotions are more effective in offline stores. • The benefit of customized promotions is greater in online stores than in offline stores. 	<ul style="list-style-type: none"> • Determine the optimal pricing and promotion for each SKU, and the optimal length and breadth of assortment in each channel for an MC retailer. • What should be the appropriate objective functions for these optimization decisions (revenue, market share, net profit, customer satisfaction, share-holder value)? • Develop dynamic models that account for interactions and independence across channels and over time, and utilize them to improve retail mix decisions. 	<ul style="list-style-type: none"> • The objective functions will become multi-dimensional. • More sophisticated models will be developed, integrating marketing, operations research, and perhaps accounting and finance. • MC retailing will become “rocket science retailing” with widespread adoption of these analytical tools (e.g. complex decision support systems for assortment, pricing, promotion, and inventory across channels).

Dynamics of MC strategies	Retailers are increasingly participating in two-way virtual shopping malls/platforms (eBay, Amazon.com) that enable them to expand channels without the same degree of investment.	<ul style="list-style-type: none"> • Will all successful MC retailers converge to the same evolution trajectory or will multiple paths to success emerge? • What new channel formats will be added to MC retailing? • What mobile retail platforms will emerge and thrive? How can retailers integrate across these platforms and with other channels? • Will mobile marketing bring back the importance of store locations now that retailers can track the movement of consumers? 	<ul style="list-style-type: none"> • “Mobile retailing” will emerge as a new retail format. • Mobile marketing will bring new insights to the way retailers view their store locations. • The mobile channel will bring new challenges and opportunities for MC retailers and profoundly reshape the retailing landscape, just as the Internet channel has done to date.
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