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Crafting Integrated Multichannel Retailing Strategies

Jie Zhang **Paul Farris**
Tarun Kushwaha **John Irvin**
Thomas Steenburgh **Barton Weitz**

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Jie Zhang*
University of Maryland

Paul Farris
University of Virginia

Tarun Kushwaha
University of North Caroline at Chapel Hill

John Irvin
J. C. Penney Company, Inc.

Thomas Steenburgh
Harvard University

Barton Weitz
University of Florida

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* Corresponding author: Jie Zhang, Assistant Professor of Marketing and Harvey Sanders Fellow of Retail Management, Robert H. Smith School of Business, University of Maryland, 3311 Van Munching Hall, College Park, Maryland 20742. Email: jiejie@rhsmith.umd.edu. Phone: 301-405-7899. Fax: 301-405-0146.

Abstract

The past fifteen years has been a period of rapid growth in the practice of multichannel retailing, mirroring the rise of the Internet as a nearly ubiquitous tool that firms use to interact with customers. More than 80 percent of a broad cross-section of U.S. retailers now report that they sell merchandise through multiple channels. This practice seems to be on the cusp of a new era in which firms start demanding even more from their investments, with particular emphasis being given to financial performance in light of the current economic crisis. These circumstances present a great opportunity both to firms that are looking to gain a competitive advantage through multichannel retailing and to researchers who are interested in helping them make more informed decisions. This article provides a broad discussion of these issues, synthesizes current knowledge, and suggests directions for future research.

Introduction

Multichannel retailers are firms that "sell merchandise or services through more than one channel" as opposed to using multiple channels to communicate with customers (Levy and Weitz 2009). We make this distinction because the operational complexities of selling and delivering merchandise through multiple channels is significant more challenging, as we will discuss, than simply using multiple channels to communicate with customers. In addition, we focus on product rather than service retailing, because the merchandise management and delivery issues are significantly less complex for service retailers such as travel agents, entertainment providers, hotels, and airlines.

Even though multichannel retailers face significant challenges, they are dominating today's retail landscape. More than 80% of a broad cross-section of U.S. retailers indicated that they sell merchandise through multiple channels. All of the large retailers and 94% of the "winner" retailers in the benchmarking study, the retailers with the best financial performance, were multichannel operators (Kilcourse and Rowen 2008). While there are benefits to retailers operating multiple channels, there are also increased costs and problems, which we will discuss in this paper.

To a large extent, the emergence of multichannel retailing was driven by the rapid expansion of the Internet as a new selling channel. In 1995, the Internet was viewed as a transformation technology 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. Fifteen years later, the Internet now appears to be a facilitating technology. Traditional store-based retailers have evolved into multichannel retailers and dominated the Internet retailing space by using Internet channels to compliment their store and other channels (catalog, mobile, call centers, and direct marketing).

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? What are the key retail mix decisions facing multichannel retailers and opportunities to create synergy across channels? In this article, we provide a broad discussion on these issues and synthesize current knowledge and directions for future research.

Multichannel Retailing: Motivations and Constraints

In this section we review the key motivations for so many retailers to operate multiple channels and the common constraints that have prevented others from going multichannel.

Motivations for Retailers to Operate Multiple Channels

Ultimately, the search for improved financial performance motivates traditional single channel retailers – store based, catalog, and Internet-based retailers – to involve into multiple channel operators. While there are cannibalization and negative spillover concerns over retailers' decisions to sell merchandise through additional channels (Deleersnyder, Geyskens, Gielens, and Dekimpe 2002; Falk, Schepers, Hammerschmidt, and Bauer 2007), research indicates that operating multiple channels has a positive effect on financial performance (Geyskens, Gielens, and Dekimpe 2002). Some sources of this improved financial performance for multichannel retailers are: (1) 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) enables retailers that have appealing offerings and strong brand names but limited locations the opportunity to expand their markets without building additional stores.

In addition, there is a growing segment of multi-channel shoppers – consumers for whom a multichannel offering is particularly appealing. There is substantial empirical evidence that multichannel consumers are an attractive market. On average, they spend more and have a high 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).[1]

Customer satisfaction and loyalty. By using a combination of channels, retailers can better satisfy their consumers' needs by exploiting the benefits and overcoming the deficiencies of each channel. For example, the store channel provides the following benefits to consumers compared to nonstore channels: the opportunity to use all five senses when evaluating products, personal service, cash payments, entertainment and social experiences, and immediate acquisition. While retailers are using social networking, instant messaging, and 3-D technologies to provide similar benefits through their Internet channel, nonstore channels, in general, are not as effective in providing these benefits compared to a store channel.

Nonstore channels, however, offer different and unique benefits such as the convenience of buying merchandise and whenever and wherever consumers want to, reducing their time and transportation costs to make purchases, offering them broader merchandise selections, and providing a safe shopping experience. In addition to these benefits offered by nonstore channels,

[1] In most research, multichannel shoppers are defined as consumers who use multiple channels in the shopping process rather than consumers who buy products and service through multiple channels.

the Internet channel has the potential for providing consumers with more extensive information about merchandise than other channels, and personalizing the information and offerings to better meet the needs of individual customers.

By providing a greater array of benefits available from a multichannel offering, 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 et al. (2008) find that increased usage of a retailer's Internet channel decreases loyalty. 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 data because of their inability to link customers to transactions when the customers pay cash and use third party credit cards. To address this problem, retailers encourage the use of loyalty program cards or ask store channel customers for identifying information (e.g. telephone numbers). In contrast, all transactions through an Internet and catalog channels have customer identification information required to send the product to the customer. In addition, the Internet channel offers the opportunity to collect data about consumer search behavior in addition to transactional 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 offerings and 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 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 channel. As we will discuss in the following section, providing this seamless interface is challenging. Tacit process knowledge is needed to effectively provide these services – knowledge that can not be readily copied by competitors.

Extensive customer information and channel integration can be used to create customer loyalty. Nonetheless, the availability of multiple channels enables customers to utilize multiple channels during a shopping episode, which can adversely affect retailer loyalty. Browsing on the Internet channel and purchasing the merchandise at a store is the most common use of multiple channels during a shopping episode. This pattern was used by over 78% of U.S. consumers surveyed recently, while only 8% used the second most widely used pattern, browsing in a store and making the purchase over the Internet (IBM 2008).

Multichannel retailers want customers to both search for information and complete the transaction through their channels, but the low cost of search on the Internet increases the opportunity for free riding (van Baal and Dach 2005). Thus customer retention during shopping episodes is a challenge for multichannel retailers. Note that prior to the Internet, customers typical researched and purchased products during a trip to one store because it was too "costly" to visit multiple stores before making a purchase decision. A ripe area for research is determining what actions multichannel retailers can take to increase customer retention through the buying process.

Constraints for Expanding to Multichannel

While numerous retailers have branched out to new channels and become multichannel operators, some have intentionally shunned away from this strategy so far (e.g., Amazon.com, Netflix, and Tiffany's). There are three key reasons that have kept these retailers from pursuing multichannel: (1) consumer access to Internet, (2) operational difficulties of integration, and (3) costs of multichannel offering.

Internet Access. At the early stage of the 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 State, where Internet access is almost universal among the target segments for most retailers. In 2008, 73% of the adults in the U.S. use the Internet, and over 85% of adults between 19 and 49 and adults with over $50,000 in family income use the Internet (PEW 2008). Over 95% of U.S. teenagers, the market of the future, use the Internet and over 65% have 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 Mexico and Turkey (OCED 2008).

Operational Difficulties. While there appear to be demand synergies for multichannel offerings (customer prefer to interact with a retailer anytime, anywhere through a seamless interface), operational synergies may be difficult to achieve since unique skills and resources are needed to effective manage each of the channels. For example, retail distribution centers (DC) supporting a store channel are designed to move merchandise cartoons from inbound to outbound trucks with minimal handling. With cross-docking, the cartoons often remain in the DC for less than a day. In contrast, the DC's supporting a catalog and Internet channel are designed to receive merchandise in cartoons 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 DC's. The channels may have different target markets requiring unique merchandise and pricing. Even the marketing activities may be different because the objective of store or Internet channel marketing is to attract consumers to the store or website, while a catalog channel involves pushing the offering to targeted consumers. 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 nonstore retailers may face considerable inefficiencies in building a store channel due to their lack of knowledge and experience in evaluating location, negotiating leases, maintaining stores, tailoring assortment to local markets, and selecting, training, and managing a large workforce. These factors may explain why few nonstore retailers have added a store channel to their operations.

Retailers providing high levels of personal services also may be reluctant to add nonstore channels because they are concerned about the negative impact on their brand image. For example, Tiffany's only uses their website to drive consumers to their stores. They may be concerned that their customers will not get satisfactory customer service and assistance in selecting the right products if they buy a diamond engagement ring through a low customer service, nonstore channel.

Challenges in Crafting Multichannel Strategies

Retail companies 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 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 talents 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 the Silicon Valley 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 with the catalog, and now called the direct or interactive retail division (e.g., Eddie Bauer, J.C. Penney, 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 of a particular channel (Gulati and Garino 2000). Yet the decentralized structure has also caused increasingly thorny problems as retailers striving to create cross-channel synergies and consumers expecting 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 experience due to lack of coordination in merchandising activities across channels. According to a study by the consulting firm Gartner Inc., 76% of multi-channel 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 effective organizational structure for multichannel retailers. Consulting firms and retail practitioners are indeed ahead of the curve in researching this topic. A recent industry study find that even though many retailers with independent structure 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 to examine short-term sales growth or profitability. Given the complexity involved in formal structural changes, consulting firm Deloitte suggests retailers to also seek the idea of building informal organizational structures that support a multichannel environment, such as developing a cross-functional steering committee, forming cross-channel leadership network and specialist network (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/standardization across individual functions. There are no one-size-fits-all solutions either. Each multichannel retailer has to decide for itself what to integrate and what to keep separate. It needs to take into consideration of 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 remedy for retailers to embrace the concept of multichannel within the current (decentralized) organizational structure (Schuman 2004). If catalog brings additional sales to stores and the Internet channels, how should it get the proper credit even though the additional sales do not show up on catalog’s accounting books? How to reward store associates who do an excellent job cross-selling merchandise available only in the online or catalog channels? How to 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 this type of questions, and design an effective compensation system to minimize conflicts and encourage and reward collaboration across channels. This is 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 capability (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 manage approach is centered around each channel, which causes many retailers not to 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 traditional bricks-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 missing 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 stage, 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. (For greater details on the customer-centricity approach to data integration, see the special issue article on “CRM in information-rich retailing environments”.)

Consumer Analytics

In today’s retail environment, consumers may window shop by flipping catalogs, search for product information online, make the purchase 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 better understanding of their decision processes and new approaches to monitoring and measuring their experience, satisfaction, and loyalty with a retailer. 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. The special issue article on "consumer behavior in a multichannel, multimedia retailing environment" provides in-depth discussions on how to further our understanding of the changing consumer behavior. 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 broader context beyond just retail organizations.

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 to them, many consumers are concerned about disclosing information to retailers, especially through an Internet channel. These concerns are rising after five years of decline. 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, Song, Lee, and Park 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 motivates 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 squared foot (for brick-and-mortar stores), sales and gross margin per squared inch (for catalog), do not apply to the emerging Internet channel. Stability of the customer base, sales forecasting accuracy, and risk profile 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 makings. Marketing researchers have made attempt 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 direct impact on the cross-channel performance metrics that retailers will adopt.

Homogenization vs. Harmonization: Multichannel Retail Mix Decisions

From a retailers’ perspective determining the optimal mix of marketing channels and identifying synergies in those channels is key to a successful CRM strategy. Payne and Frow (2005; p.172) argue that:

> “The multichannel integration process focuses on decisions about what the most appropriate combinations of channels to use are; how to ensure that the customer experiences highly positive interactions within those channels; and when a customer interacts with more than one channel, how to create and present a single unified view of the customer”

At one extreme of this continuum is homogenization of offerings in each channel. While at the other extreme is the strategic choice made by retailers to maintain the distinct characteristic of each channel that enables them to use channel as a segmentation tool. There are very few retailers that would be classified at either end of this continuum. Multichannel retailers are faced with the decision of determining the extent of harmonization that they want to establish between their different channels. They need to make decisions on key retail mix elements, such as assortment selection, pricing, promotion, inventory management, fulfillment, and return policies, for each channel, which in turn determines the extent of harmonization across different channels. Essentially, all multichannel retailers have to address several questions like: parity in pricing across channels, what product assortment to carry in each channel, extent of markdowns and promotions to be implemented in different channels, and determining the role that channel plays in influencing the customer search, purchase, and post purchase behavior. We briefly highlight some of these decisions faced by retailers in the process of coordinating across multiple decision dimensions.

Pricing

Firms have to strike an optimal balance between consumers' expectations of prices in different channels and the cost structure of each channel. Reduction in information asymmetry and buyer search costs have lead to an average lower prices for products of comparable quality sold through electronic channels compared to traditional brick-and-mortar stores. This has lead to modification in consumer expectations of prices asymmetry between electronic channels and traditional brick-and-mortar stores. However, the cost structure associated with each channel is very distinct. The cost structure of direct channels is, in general, dominated by high variable cost components as order picking, packing, shipping, returns processing, etc. While the cost component of brick-and-mortar stores is dominated largely by the fixed costs such as real estate investments, utilities, insurance, merchandising, and labor costs. This inherent difference in cost structure makes direct channels insensitive to business volume thereby putting it at odds with consumers’ expectations of lower prices in these channels. Managers are thus faced with this dilemma of pricing in accordance with consumer expectations while still maintaining profitability in different channels. This 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 leads to a principal-agent problem in which the managers make decisions to maximize their gains along the dimensions in which their incentives are aligned. Such behavior can lead to dramatically different prices in different channels. At the same time, it can also be argued that it is beneficial for firms to have different prices for the same product in different channels as long as this pricing mechanism is designed synergistically. For example, for products with higher picking, packing, shipping or returns costs, it is more appropriate to price them at higher levels in direct channels thereby driving customer traffic to stores. Similarly, for low margin products which require brick-and-mortar stores to carry large assortment, it makes more sense to price them lower in direct channels to drive up the volume in these channels. Pricing decisions very intricately illustrate the notion of balancing between homogenization across channels versus harmonizing to enhance the profitability of the entire retail organization rather than the total profitability of each channel.

Assortment and Inventory Management

A customer’s choice of a channel will likely depend on the number of product categories and items that she is able to purchase. The store choice literature suggests that assortment ranks right behind location and price as the major drivers of store choice (Hoch, Bradlow, and Wansink 1999). Store choice is also driven by variety seeking behavior (Popkowski Leszczyc and Timmermans 1997). In the context of channel choice, however, variety seeking could be reflected by the purchase of different assortment of product categories and SKUs available in different channels. Customers who seek to buy a variety of products or SKUs may have to use multiple channels to fulfill their requirements (Kumar and Venkatesan 2005). Since the cost of carrying merchandise varies across channels, retailers have to carefully pick an optimal assortment for each channel while still maintaining the breadth of assortment across channels to ensure that they have a competitive advantage. This provides multichannel retailers a unique opportunity to draw on strengths of different channels in order to enhance customer satisfaction while reducing the merchandising and assortment carrying costs. For example, multichannel retailers J.C. Penney and Macy's carry a smaller assortment of products in their brick-and-mortar stores but provide the customers the option of ordering additional sizes, colors, and designs through their in-store Internet kiosks or catalogs. Similarly, several retailers carry only display models in store for larger items which are more expensive to ship to store and take more floor space. Such approach permits their customers to check the product in store and order it from direct channels. For multichannel retailers carrying hundreds of product categories and thousands of SKUs, managing the process of harmonizing product assortment across channels is a complex yet strategically important decision.

Opportunities for Synergies across Channels

Neslin and Shankar (2009) note that some worry that "multichannel marketing is just a prisoners' 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. J.C. Penny's gained prominence first as a catalog marketer, then 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, while balancing channel conflicts (Ansari et al. 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. If multichannel retailers had only encountered cannibalization and conflict in the development of multiple channels the phenomenon would have been short lived. Synergies, on the other hand, represent potential increases in overall productivity and customer value that stem from the ability to employ combinations of channels. In this section, we lay out a categorization of potential synergies for multichannel retailers.

Reviewing the quickly-emerging literature on multichannel marketing and exploratory interviews with senior executives at three Fortune 500 multichannel marketers (retailer, furniture, and financial services) 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 make more efficient use 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 (Framback et al. 2007 and Verhoef et al. 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 choice of products for valuable in-stores 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.

3. *Cross-channel price comparisons.* In some cases companies have established presence in multiple channels to complement 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 online may help control the threat of double marginalization (Chiang et al. 2003).

4. *Digitization.* Digitization of products such as operating manuals, bills, warranty documents, 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 make it more convenient for customers and free up service personnel for more profitable and higher value-added customer interactions.

5. *Share of 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 comparison 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 et al. 2007).

Dynamics of Multichannel Retailing

The ability of the multichannel marketers to discover, develop, and exploit fully the potential synergies among multiple channels may depend on the degree of commitment to the new channels and commitment is likely to depend on early results. In the beginning, companies that have had success with one channel form 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 multi-channel retailing program on the basis of short-term results alone. The effects of opening a new channel can be multi-faceted, and the benefits from embarking on a multi-channel 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 benefitted 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 to 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 for new channels proven true. 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 multi-channel strategy development and the evolutions of synergies. Only the last two stages seem to promise the synergies that we have discussed in this section.

Future Directions

The past fifteen years has been a period of rapid growth in the practice of 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 to firms that are looking to gain a competitive advantage through multichannel retailing and to researchers who are interested in helping them make more informed decisions. We conclude with highlighting some of the themes discussed in this paper that may lead to particularly interesting research topics.

One of the leading challenges in practice is to determine how to set up an organizational structure to manage multiple channels. Currently, firms tend to manage each of their channels separately, as opposed to having a common person to which all channel reports. Although channel conflict is bound to exist in any organization, a silo managerial approach would seem to heighten the problem. Research would be helpful in addressing the question of whether firms 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 firms 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 mangers?

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? Should each channel be allowed to tailor their message to their customer base because these customers differ or is it better to provide a common experience even if it results in inefficiencies within each channel?

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

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