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MBA Programmes

MBA Management Project – Individual Report

Multi-channel Retail and its Integration

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Abstract

As a part of MBA management project, I along with my group selected to undertake a group and individual project. Our group of four was invited into Boots.com to investigate the performance of electrical beauty category using McKinsey retail model as basis. For our individual project, we were supposed to select independent research topics.

Boots is going through the phase of creating a multi-channel retail strategy for their organization and are in the phase of planning integration of different existing and new retail channels. I chose to undertake multi-channel integration topic as my individual research topic.

This reports looks at various elements which are linked to multi-channel retail integration. It starts by creating an understanding about the concept and discovering customer behavior with respect to multi-channel buying. It leans on to defining different strategies which can be adopted by the organization while implementing multi-channel. Finally, last section discuss about different frameworks which can help an organization to integrate different distribution channels of the organization which is a biggest challenge for current high street retailers such as Boots.

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Acknowledgement

Firstly, I would like to extend their gratitude to the project supervisor Keith Harrison for his guidance and support throughout this project.

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1. Introduction

Retail business today face tremendous challenge with a potential impact not encountered since industrial revolution. In an increasingly competitive retail marketplace, the end to end customer experience has become the new battleground [Denise et al, 2002]. Success in retail today requires companies to deliver a superior, differentiated shopping experience attuned to ever-changing customer needs and preferences. Leading retailers today are harnessing both traditional and new channels to provide customer with new and more flexible ways of shopping.

The goal for forward-thinking retailers is to reorganize their businesses around the customer: using customer information to dynamically change business processes, personalize offerings and allow customers the flexibility to browse, enquire, buy and return on any combination of channels depending on each and every individual shopping mission [IBM, 2007].

The tough challenge faced by retailers is how to make this revolutionary change whilst continuing to grow and service their customers. Maintaining the status quo is no longer an option, with niche and global players investing heavily in new customer-centric services, fuelling even higher levels of expectation amongst customers and higher levels of operational complexity [Danny, 2007]. Multi-channel retailing (MCR) provides an answer to this dilemma. Effectively implemented, multi-channel retailing is a catalyst for change across the business, helping retailers move away from product-centric operations to more customer centric organizations, creating a model that meets the expectations of the future customer whilst delivering profitability and growth.

According to IMRG, by 2009, more than one-quarter of all UK shopping will be conducted via the Internet or mobile devices in a market worth some GBP80 billion. Currently, 35% of consumer electronic consumers in the UK regularly use cross-channel services. Multi-channel customers drive more sales at a higher gross profit, and these customers tend to be more loyal. Over 60% of retailers found multi-channel customers more profitable. 2006 e-commerce sales in Western Europe will total USD97 billion, up 36% over last year. In just three years the market is forecast to double its size. [Riseley 2006, Grau 2006]

The emergence of multiple channels has been a real empowerment for the customer today. The customer is option rich, time and attention poor and fully aware of the choices that he or she has access in the market [Vivek, 2005]. Further they are constantly connected to the information and are learning and experimenting new ideas online through social and collaborative capabilities in the new world.

1.1 Defining Multi-channel

Multi-channel retailing enables consumers to conveniently shop in a number of modes, including stores, catalogs, website, kiosks and even PDA's that can access the web. While there are different levels of multi-channel retailing, a well integrated multi-channel format enables consumers to examine goods at one channel, buy them at another channel and finally pick them up (and possible return them) at a third channel [Barry & Shawn, 2004]. Multi-channel retailing offers synergies, as it can result in an increase customer base, added revenue and higher market share.

Planning, developing and maintaining a well integrated multi channel strategy is not an easy task. It involves detailed planning and developing an infrastructure that can effectively link multiple channels [Barry & Shawn, 2004]. For example, a retailed accepting a web purchase for exchange at a retail store would need an information system to verify the purchase, the price paid, the method of payment and the date of the transaction. A multi-channel retailer would also need a mechanism for delivering goods, using a single warehouse regardless of which channel was used by a customer to purchase that good.

Retailers globally have realized that an effective multi-channel strategy is essential to drive profitable growth in retail [Marcel, 2006]. Multi-channel retailing is about providing a consistent customer experience across all the channels that the customer interacts with the retailer through a judicious use of emerging technologies, improved operating process that focus on multiple channels empowered employees who can think of solution to customers need across channels. This can help in providing a differentiated shopping experience to meet ever-rising customer expectations.

1.2 Multi-channel is an imperative

Customers today want to shop anytime, anyplace, anywhere – and if they are prepared to pay the shipping costs, that is exactly what they are able to do. Ideally customers will choose this ‘Martini’ style of shopping with their preferred brand. However, if the brand is not available in the channels preferred by the customer, there is a high risk of brand switching on an experimental and potentially permanent basis [Danny, 2007].

Customers will continue to expect access to their favorite retailer through their preferred channels, selecting, for them, the right channels for the right products. Understanding these requirements is an impossible task – and best left to the customer. By delivering your brand through an integrated multi-channel strategy, you provide the flexibility for customers to decide, helping them stay loyal to your brand because you fit each and every one of their shopping missions. As a retailer, you cannot predict what these are likely to be, but you can plan to accommodate a multiplicity of current and future channels – including TV, phone, PC and perhaps even computer games consoles. Although the multi-channel concept has been around for years, the recent pressure to add an online presence has driven more and more retailers and cataloguers to become multi-channel entities [Denise et al, 2002]. Consequently multi-channel retailing (MCR) is an imperative now, not just to secure current market share, but to build new models that support long-term, sustainable growth and profitability.

Importantly, multi-channel retailing is not just about exploiting technology to open new channels to market. To succeed, retailers need to capitalize on the growing volumes of information readily available through physical and online interactions, integrating this information horizontally across their businesses resulting in the ability to bridge organizational silos to deliver a totally new integrated experience for the customer.

Although retailers continue to rely primarily on stores as their operational center of focus and profitability, most have offered alternatives for time-starved consumers. Today, very few retailers operate in one channel and most operate in two. Best-in-class retailers typically operate in three channels: stores, the internet and call centers/catalog [Aberdeen Group, 2005].

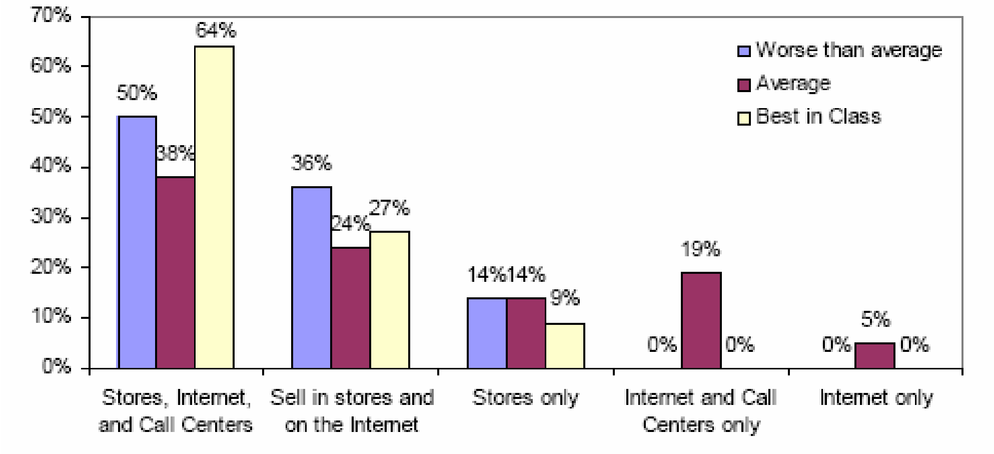


Figure 1: Best-in-class retailers use more selling channels [Source: Aberdeen group, 2005]

A multi-channel competitive framework which classifies what is required to be Best in class for multi-channel is shown in appendix 1.

1.3 Benefits of Multi-channel retailing

There are a number of important advantages to a retailer's undertaking a multi-channel approach to its overall business. These include enabling a retailer to select among multiple channels based on their unique strengths, opportunities to leverage assets, and opportunities for increased sales and profit- making opportunities through appealing to multi-channel consumers.

1.3.1 Ability to select among multiple channels based on their unique strengths

Unlike a single-channel retailer, a retailer that uses a multi-channel strategy has the ability to choose the most appropriate channel in its overall portfolio to sell a given good or service or to reach a different target market. Each channel has a unique combination of strengths and weaknesses. Consumers' choice of one channel over another can be regarded as an optimization problem; the retailer with multiple channels can best provide information, products, and service to its customer base [Reardon and McCorkle, 2002]. For example, store-based transactions enable customers to see an item, feel it, smell it (e.g. candles or perfumes), try it out and then pick it up and take it home on the same shopping trip without incurring shipping and handling costs.

Catalogs offer high visual impact, a high-quality image, and portability (it can be perused in a multiple of environments). The Web offers high quality video/audio capabilities, an interactive format, a personalized customer interface, virtually unlimited space, the ability for a customer to verify in-stock position as well as order status and in some cases tax-free shopping. In addition, in-store kiosks are also an ideal way to deal with stock-outs [Hyde, 2001], allowing customers to order the product before leaving the store. Multi-channel business models also offer an important

1.3.2 Opportunities to leverage assets

Multi-channel retailing provides a number of opportunities for a retailer to leverage both its tangible and intangible assets. An example of a retailer's leveraging its tangible assets is a store-based retailer's using excess capacity in its warehouse to service a new catalog or Web-based operation. Leveraging an intangible asset would include applying a store-based retailer's trusted brand name to an area without retail stores via a Web-based strategy.

Catalog-based firms have major opportunities to leverage their existing customer databases, order fulfillment organizations, and product descriptions in their Web operations. Store-based retailers also have significant opportunities to leverage their store-based facilities and in-store customer traffic via in-store kiosks. The yield associated with leveraging assets can be very high.

1.3.3 Opportunities for increased sales and profits

A number of studies concur that multi-channel consumers spend more than those that confine their shopping experiences to single channels. According to an independent consultant, F. Curtis Barry & Co., catalog consumers who use multiple channels spend 25 per cent to 100 per cent more than their single-channel counterparts. It estimates that multi-channel customers spend two to five times more than single-channel customers [Del Franco and Chiger, 2002].

2. Customers of Multi-channel

2.1 Customer Management

Multi-channel customer management is the use of more than one channel or medium to manage customers in a way that is consistent and coordinated across all the channels or media used [Merlin et al, 2002]. This definition does not say the same way, as different channels may be best used for different tasks. For example, in a complex, technical, business-to-business environment, a sales person may be best for explaining the product, meeting objections and dealing with queries, and setting up initial contacts, while the Web or call centre might be used for reordering or checking progress with delivery. Also, it may be that channels are used in a differentiated manner, e.g. if a person wants to buy tickets for last-minute cancellations by other customers, they are referred to an auction website as other channels cannot support this kind of interaction cost-effectively.

There are two main reasons for the importance of multi-channel customer management:

- developments in new channel technology: increasing reliability and speed of storage and telecommunications technology, convergence of voice, video and data

- customer requirements and expectations: some (not all) customers expect technology and processes to be used to manage them more consistently across channels.

Although it is now easier to ensure that every channel dealing directly with a given customer has the latest data on the state of interaction between supplier and customer, and follows related, connected processes, this is not costless or without technical problems. In particular, it should be noted that the companies for whom it is suggested that multi-channel customer management will yield the most benefits are those for whom achieving it is most problematic. They have the largest customer bases, the most complex lines and the longest history of systems development, with many business-critical systems that support the process of customer management being quite old.

2.2.1 The Benefits

The benefits of multi-channel customer management, however, are numerous. These include benefits that work through customers, ones that work for customers and ones that work through efficiency, as follows. The benefits that work through customers are [Merlin, 2002]:

- the identification and capture of opportunities for increasing value per customer

- increased convenience and an improved experience, reducing customer churn rates and increasing their motivation to buy more from the supplier

- the ability to leverage an established brand creating positive impacts on brand perception and mitigating the risk of brand damage, increasing the incentive for customers to stay and buy more.

2.2 Relationship between CRM and Multi-channel

Customer relationship management (CRM) has emerged as a new trend in retailing during the previous decade. The interest in CRM was raised by Reichheld [1996], where he showed that acquiring new customers could cost five times as much as retaining current ones. The goal of CRM can thus be defined as the attraction, sustainment, and development of successful customer relationships over time. CRM is based on the relationship-marketing paradigm. Customer relationships have been common in industrial marketing long before the advent of CRM. Further impetus for relationship marketing came from the services marketing perspective where relational marketing practices were important for success due to the experiential nature of services [Egan, 2001]. The widespread availability of advanced information and communication technologies has now also enabled retailers to employ relational practices in their marketing strategies.

The multi-channel integration process has a pivotal role to play in CRM as it takes the outputs of the business strategy and value-creation processes and translates them into value adding interactions with customers [Adrian & Pennie, 2004]. It involves making decisions about the most appropriate combination of channel participants and channel options through which to interact with your customer base; how to ensure the customer experiences highly positive interactions within those channels; and, where the customer interacts with more than one channel, how to obtain and present a 'single unified view of the customer.'

2.3 Customer Experience

Faced with the necessity of offering customers different channel types to meet their changing needs during the sales cycle (pre sale, sale, and post sale), it is increasingly imperative to integrate the activities in those different channels to produce the most positive customer experience and to create the maximum value. Competitive advantage today is not just about selling products and services to customers; it is about delivering world class service, and building long-term and profitable relationships with customers, which are founded on mutual benefit and trust. To succeed, therefore, the company must consistently seek to offer an individualized relationship [Peppers et al., 1999], where economically feasible, in every customer interaction through whatever channel is being used.

Because of the great importance of a highly positive customer experience, the channel strategy should seek to ensure such an experience occurs both within channels and across channels. The channel experience needs to be considered, in the context of a company's industry sector and its important customer segments, by identifying the following:

- the typical and perfect customer experience within channels;
- the typical and perfect customer experience across channels;
- how to sustain and improve the customer experience within channel, across channel, substitute an existing channel for a better one.

2.3.1 The customer experience across channels

The customer experience commences with the communications activities undertaken as part of the company's acquisition program and continues through all subsequent forms of customer interaction [Smith & Wheeler, 2002]. In communicating with the customer, a company is likely to use a combination of different channel options or media, such as advertising, direct mail, sales promotions, public relations, and so on. If the company is to be successful in forming a particular perception of itself in the mind of the customer and in building a relationship with them on that foundation across channels, it must ensure consistency in the messages conveyed by these different means [Storbacka, 2001].

Any incoherence or conflict in the messages in different channels will confuse the customer, who may then misinterpret or 'draw a blank' about what the company stands for and what it is offering.

2.3.2 The role of technology in improving the customer experience

Technology can make a major contribution to achieving an outstanding customer experience. For example, within a call centre, caller line identification can identify the caller and rules-based systems can accelerate important customers up a large queue of calls; IVR can assist a customer to find the most appropriate person to speak to without multiple hand-offs; computer-telephony integration tools, in conjunction with caller line identification, can enable a customer's computer records to instantaneously be called up and be shown on the call centre operator's screen. Together with an empathetic and well-trained company representative, these technologies can dramatically improve the customer experience, in this case, in the contact centre environment. The advent of increasingly sophisticated database technologies has greatly enhanced the ability of companies to target and differentiate their products, customers, and customer communications. Special search, analysis, and tracking features also enable companies to monitor the effectiveness and efficiency of marketing activity, and thus to maximize the return on marketing expenditure.

2.4 Customer purchase and consumption process

The reason for the overwhelming preference for multi-channel integration is that it enables synergies between channels, which benefit customers. These benefits in turn improve retailer's customer acquisition, extension, and retention capabilities. It appears therefore that the advantages of multi-channel integration under most circumstances outweigh the benefits of channel separation as well as the difficulties of channel integration [Gulati & Garino, 2000]. The *purchase and consumption process* (PCP) comprises all activities consumers may perform to satisfy a need. It includes both pre-purchase and post-purchase activities, as these constitute service encounters that can significantly influence customer behavior [Daniel Goersch, 2002]. It is important to understand that the PCP is cyclical with regard to customer extension and retention, since subsequent purchases are significantly impacted by experiences a customer makes during earlier interactions. The PCP is thus an ideal framework for the identification of synergies between channels, as it includes all possible touch-points between retailer and customer. In the following, the synergies that could be derived based on the PCP are discussed and linked to the three aforementioned goals of multi-channel integration

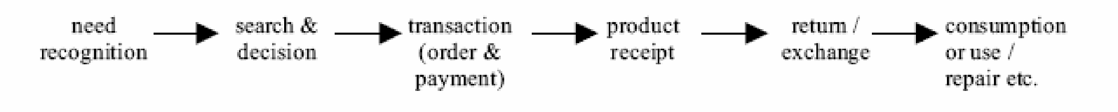


Figure 2: The purchase and consumption process [Source: Daniel, 2002]

2.4.1 Increased awareness

As a first step of any interaction with a retailer, the consumer needs to become aware of the retailer and its product offerings. Retailers compete for this consumer awareness, because it is crucial for customer attraction. However, creating consumer awareness is difficult both for physical and electronic retailers. Store retailers often create awareness through superior location. Without a superior location, they are at a disadvantage. The problem of awareness creation is even exacerbated for electronic retailers, as they cannot benefit from location advantages. Accordingly, e-retailers need to spend more money on marketing and advertising, driving up their customer acquisition costs [Rosen & Howard, 2000].

2.4.2 Increased trust

Tan & Thoen [2000] conceptualized consumer trust and perception of risk as interdependent factors influencing a consumer's willingness to purchase. The perception of risk and the potential gains from the transaction determine a trust threshold that needs to be surmounted either by trust in the other party or by trust in control mechanisms. Jarvenpaa et al. [1999] viewed trust as a belief or expectation that the word or promise by a merchant can be relied upon and the seller will not take advantage of the consumer's vulnerability. Trust is particularly important during first-time interactions between retailers and consumers and therefore most pertinent to customer acquisition.

2.4.3 Reduced risk

Dowling & Stealin [1994] defined risk as a consumer's perception of the uncertainty and adverse consequences of engaging in an activity. Consumer purchase behavior is significantly influenced by the perception of risk. Risk therefore affects acquisition, extension, and retention. Lower perceived risk is associated with more favorable attitudes toward shopping. Moreover, when the perceived risk is minimal, consumers bypass the search and evaluation phase, which reduces the likelihood of destructive price competition for retailers.

2.4.4 Increased convenience:

One of the most important antecedents of satisfaction with shopping is convenience [Szymanski & Hise, 2000]. Customer satisfaction, in turn, is likely to have a very positive impact on customer acquisition, extension, and retention. Convenience includes the ease of locating merchants, finding items, placing and canceling orders, and returns and refunds, as well as timely delivery of orders. Multi-channel integration offers a number of opportunities to improve on these factors. Convenience also implies that purchase activities can be conducted wherever and whenever a customer wants to. Therefore, a combination of online and offline channels should further increase convenience. Consumers may search online or offline or both order the product in one channel and obtain it in the other, and so forth.

2.4.5 Increased perceived control

Perceived control has a positive effect on customer satisfaction. The possibility to choose different channels for their shopping activities should increase the level of control customers perceive. Forever, the level or perceived control rises with the availability of resources and opportunities to perform a behavior [Keen et al., 2000]. As self service instruments for customers, Web sites can provide precisely such resources and opportunities (see section 5). In comparison to the use of stores only, the use of retailers' Web sites to support offline purchases (e.g., for information search or post-purchase support) should therefore augment the perception of control even further.

2.4.6 Enhanced support

A consumer's production depends on the array of acquired goods and services, the time allocated to production, and the ability to combine the goods and services in the given time into various quantities of final desires [Lei & Robey, 1999]. Value-adding services and supplementary products can support customers in the role of producer, adjusting for differential capabilities and knowledge. Providing such support also decreases the risk of commoditization. Enhanced support should particularly strengthen customer extension and retention. Multi-channel integration gives retailers the ability to provide support to customers, independently of in which channel the transaction has taken place. Moreover, since a multi channel customer can utilize all channels, some of the supplementary products and services offered can be channel-specific, exploiting the strengths of the respective channels.

3 Multi-channel strategy

3.1 Classification of multi-channel strategy

Multi-channel strategies can fundamentally differ regarding the relationship and roles of online and offline channels. These strategies can prefer either the online or offline channel. The other channel plays mainly a supporting role by guiding customer to the preferred channel [Stefan et al, 2004]. Even if a supporting channel enables complete transactions, customers will mostly be encouraged to switch to the preferred distribution channel. Stefan et al (2004) have created a framework which gives an over view of classification of multi-channel strategies which is shown in figure 3.

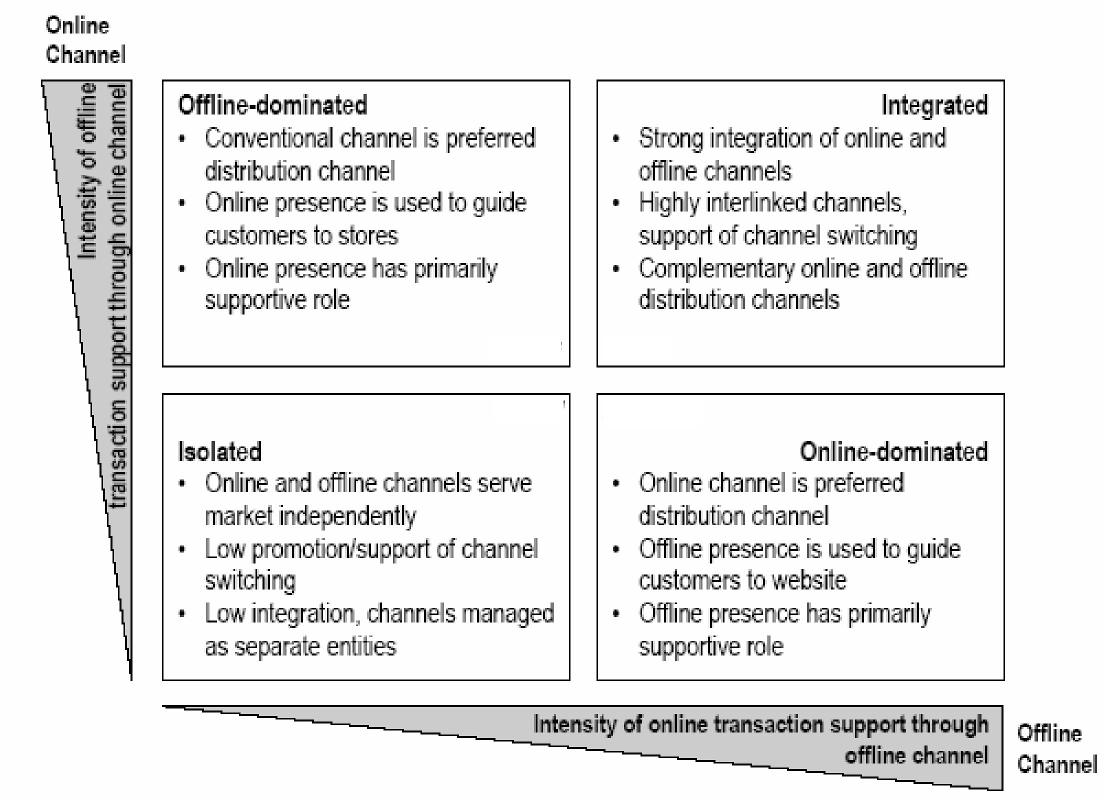


Figure 3: Framework for multi-channel strategies [Source: Stefan, 2004]

3.1.1 Offline-Dominated Strategy

In an offline-dominated strategy, the online channel plays a supporting role and is mainly used to increase allocation efficiency of the offline channel. Content of the Web site is often limited to (partial) information on in-store offerings and store locations, limited additional services such as after sales information might be offered. Possible motivations for pursuing this strategy are: a sophisticated distribution system optimized for providing goods to a network of shops, strategic differentiation by means of in-store customer advisory services which cannot be offered on the Web or contractual limitations.

3.1.2 Isolation Strategy

An isolation strategy is pursued when online and offline channels are managed as separate and independent entities, possibly operating under different brand names. Neither communication activities nor incentives or explicit links support or encourage customers to switch between channels. Possible factors supporting a choice of this strategy are the avoidance of channel conflict, targeting different customer groups with e.g. channel-specific pricing schemes or different geographical regions targeted by online and offline channels.

3.1.3 Online-Dominated Strategy

In online-dominated strategies, the offline channel is configured to guide customers to a corporate Web site or similar online offerings. Communication and promotion activities in the offline realm and possibly incentives such as lower prices or a wider range of products offered online aim to strengthen the online channel. This strategy can be used when e. g. trying to bypass intermediaries or to shift sales volume from a cost-intensive offline channel to the cheaper online channel. In analogy to offline-dominated strategies, previously online-only retailers can also try to get access to offline channel infrastructure in order to increase their online profitability or sales volume.

3.1.4 Integration Strategy

In integration strategies, the service portfolios respectively product offerings in both online and offline channels are mainly restricted by technology rather than by strategic decisions favoring one specific channel. The channels are seen as complementary components of a multi channel system that aim to provide a high level of convenience to customers, e. g. through supporting channel hopping in and between transaction phases. This form of differentiation strategy might help to charge premium prices, but also incurs extra costs.

3.2 The Multi-channel strategy

Developing a multi-channel strategy that delivers an appropriate customer experience for a company's key customer segments is essential. Adrian (2004) has identified six key steps involved in building a multi-channel strategy: develop strategic multi-channel objectives, understand customer and channel touch points to leverage competitive advantage, undertake a strategic review of industry structure and channel options, understand shifts in channel usage patterns, review channel economics, and develop an integrated channel management strategy. These steps are now briefly described, drawing on the discussion above.

3.2.1 Develop strategic multi-channel objectives

The starting point for formulating a multi-channel strategy is to determine the key strategic objectives. The overall objective of multi-channel integration is to provide a significantly enhanced customer experience that results in higher customer satisfaction, and increased sales, profits, and share of wallet. Ideally, this should be accompanied by a lower cost to serve, through alternate channels, lower in the value chain, e.g., from direct sales force to desk-based account management or a shift from desk-based account management to the adoption or increase in the use of electronic solutions.

Specific strategic objectives should be developed by a company to reflect the earlier strategy development and value-creation processes. For example, the broad objectives set for a new multi-channel strategy by a leading company for its major business clients included the following:

- Improve the customer experience
- Increase account coverage
- Improve revenue growth

- Decrease operating expenses
- Utilize the full skills and resources of our business and its employees.

3.2.2 Understand customer and channel touch points to leverage advantage

The needs, wants, and concerns of customers should be a primary consideration in the design of marketing channels. Central to this is undertaking a detailed customer segmentation that helps identify key needs and concerns at the segment level and an integration of customer touch points across channels. Understanding and managing customer touch points or customer encounters represent an extremely important part of multi-channel integration and CRM. An analysis of the customer's needs, wants, and concerns helps identify how such touch points can be leveraged to gain advantage.

These needs, wants, and concerns need to be a viewed over the entire life cycle of the customer relationship. The stages of a customer relationship can be considered under the three broad headings of acquisition, consolidation, and enhancement. These stages can be broken down into more specific elements that will vary depending on the business being considered. For example, a computer manufacturer selling to business customers identified the following key elements: marketing communications, prospecting and lead generation, sales qualification, proposal generation, presales activity, selling, installation, post sales service, and ongoing account management.

3.2.3 Undertake a review of industry structure and channel options

This step involves a review of the channel alternatives currently being used by the company and those used by their competitors as well as the potential for structural change by means of disintermediation or re-intermediation. This task can be assisted with a tool called channel chain analysis that considers how combinations of channels are used at different stages of the customer interaction with their supplier.

3.2.4 Understand shifts in channel usage patterns

The consideration of possible channel options can be assisted by an understanding of how shifts will occur in channel usage patterns. For example, the Web and e-mail channels are growing at a much greater rate than traditional channels, such as voice-based telephony

[Forrester Research, 2001]. Companies also have experienced significantly different rates of usage of different channels and these usage patterns need to be considered as part of this analysis.

An exploration of past trends and future forecast in channel usage should be considered with respect to the company's customer segments. In addition, the relative importance of different channels at different customer relationship life cycle stages for the product or proposition needs to be considered.

3.2.5 Review channel economics

The next step is to review channel economics. In some industries, marketing channel costs may represent over 40% of the price paid by the customer, so these often represent a prime opportunity for cost reduction. However, alternative channel structures and channel options have widely differing economics in terms of transaction costs, infrastructural costs, and relative usage.

Transaction costs across different channels vary so markedly that they are frequently the primary area of focus in discussions on channel adoption. Not surprisingly, many businesses have rushed into the on-line channel because of its low transaction costs. However, while channel transaction costs are important, other aspects of channel economics must also be explored. Studies, such as that undertaken by McKinsey and Co. and Salomon Smith Barney (2002) have demonstrated that the apparently low transaction costs involved on selling on the Internet need to be considered alongside other consideration, such as marketing, Web site development, fulfillment, and other costs.

3.2.6 Developing an integrated channel management strategy

This final step involves making decisions regarding how the company's strategic channel objectives will be achieved through a properly integrated channel management strategy.
The choice of the appropriate multi-channel strategy will depend upon the desired customer experience for the key target segments, the complexity of the channel interaction, and the channel economics. The economics of channels and the relative degree of use of alternative channels by different customer segments will have

significantly different profit outcomes. Understanding the different profit contributions of customer segments and successfully exploiting this is a factor of superior channel management. Developing an integration channel management strategy gives rise to the following issues: how to achieve brand consistency in the formal communications programmed of different channels; how to achieve consistency in the way customers experience the company when they deal with its various channels; how to ensure the communications and services a customer receives through different channels are coordinated and coherent, tailored to their particular interests, and cognizant of their previous encounters with the company; and how to optimize the return on resources deployed across different channels.

4. Multi-channel integration

Planning, developing and maintaining a well-integrated multi-channel strategy is not an easy task. It involves detailed planning and developing an infrastructure that can effectively link multiple channels [Barry & Shawn, 2004]. In a well integrated multi-channel strategy, consumers view the firm as a single retail entity with complementary distribution alternatives.

The starting point is to consider objectively who should dictate channel strategy, the customer or the supplier. In general, the customer's needs must first be considered. If customers in the firm's target segments have demands that can be satisfied best through a particular channel strategy, this should be emphasized in the firm's strategy. As Butanay and Wortzel (1988) have observed, a channel strategy becomes relevant because the target customer segments want it that way. However, circumstances, including capacity, competences, and capabilities, and business ambitions may dictate a more supplier-oriented, and less customer-oriented, approach.

An integrated multi-channel strategy involves utilizing the full range of commercially viable channels to serve customers and integrating them without attempting to influence the channel that the customer wishes to use [Adrian & Pennie, 2004]. The business should seek to capture all customer information across all channels and integrate it within a single data repository so the business can recognize previous interactions with the customer, regardless of the channel in which the interactions took place, and use this to enhance the customer experience.

4.1 Identifying channel requirements

Merlin [2002] have proposed various elements which needs to be examined before developing a new channel:

4.1.1 Experiment with scenario planning

It is vital to understand customers' channel preferences and usage. Customers not only want to buy, but may also need information and advisory tools. So, scenario planning can be used to understand which channels customers want to use for each part of the interaction process [Merlin, 2002]. Customer scenario planning is a powerful tool. It helps at all stages, from articulating the vision, determining processes and selecting technology. Thus, for expensive products customers may prefer to pre-shop online and then visit the store to look at the product and buy.

4.1.2 Consistency

Suppliers should plan for consistency of their brand, customer information and the customer experience across different channels. Scenario planning is also useful here. Channel synchronization may be used to deliver a consistent customer experience. Consumers can become frustrated when suppliers' online channels only sell a selection of their offline products or services or altogether different products or services [Merlin, 2002]. To improve consistency in the product/services offering, suppliers should stage online product roll-outs, first focusing on depth in their core product/services categories, then add breadth through new complementary products and finally, once the depth and breadth of products online reach critical mass, suppliers should introduce not-so-obvious categories and services both on and offline. Alternatively, the on and offline channels should be clearly positioned as different.

4.1.3 Customer service and promotions consistency

Services and promotions can be integrated across channels. Companies can use various strategies to achieve this: merging mailing lists to target e-mail and catalogue promotions better; launching cross-channel loyalty program to increase customer retention; rewarding customers for whichever channel they complete their transaction within; and using bricks and mortar stores to provide local services to improve customer convenience for online shoppers [Merlin, 2002]. Examples of the latter include accepting returns in-store from online shoppers and offering in-store pick-up to get online shoppers to favor them. Where companies fail to integrate services and promotions across channels this will shift the balance of business elsewhere as customers' expectations are not met.

4.1.4 Pricing

In making the transition from single channel to multi-channel, companies face the challenge of pricing issues, i.e. can they charge different prices to their customers for the same product online and offline? Many believe that different prices for the same product from the same company are not feasible; customers expect to be charged the same price whether purchasing online or offline, whether or not it is more cost effective for a supplier to sell online. The argument of suppliers is that a universal pricing strategy is not realistic, as offline customers must inevitably pay a premium for the added satisfaction of the in-store shopping experience, Therefore, in developing their channel strategy, companies must give consideration to the very real consumer pricing expectations — consumers expect prices to be competitive, whichever website they purchase from, regardless of whether the site is a pure Internet operation or an online channel as part of a wider multi-channel operation.

4.2 Beginning of integration

In order to increase customer satisfaction, multi-channel retailers must fully integrate their systems and processes and enable a single view of inventory, customer data, vendors, orders, and pricing from a holistic organizational perspective and not view the individual channels as separate entities (IBM, 2005). As a foundation for these single views, the item master and merchandise hierarchy should be synchronized across all channels, and customer orders must flow through a single order management system that allows the retailer to achieve total order visibility, tracking and control – regardless of what channel the order originated in.

Multi-channel integration involves integration of the different channels. From the point of view of order capture in a retail scenario, multi-channel integration poses significant challenges specially in relation to maintaining a single view of the customers. [Fai Ganesh, 2004]. Operational processes must also be consistent across all channels and fulfillment methods with well-defined, concise key performance indicators (KPIs) that measure what is most important for the organization as a whole and not what will best satisfy one channel at the cost of another. The organization must focus on external competition and eliminate internally competing for customers. In addition, retailers must exhibit flexibility to meet changing demands in the future.

To begin the journey, the retailer needs to assess their current systems and operational processes to determine any potential capability gaps. Infosys (2006) proposes a core capability continuum model which, can assist in this assessment. This model [figure 4] provides a menu of the core capabilities needed in each of the order capture, execution and fulfillment functions. Implementation of these capabilities need not be sequenced as listed, but should be implemented based upon the organization's unique challenges.

Capture & Validation	Pricing & Promotions	Promise	Fulfillment	Monitoring	Receiving & Settlement	Returns
• Common order capture/editing • Integrated inventory visibility • Sales credit allocation • Gift registry/ wish lists • In-store kiosk, deep catalog/endless aisle • PO Visibility • Order Validation Rules • Customer Management • Cross sell & Up-sell capability	• Integrated promotions • Allocation of promotional funds • Delivery vs. pickup pricing • Shipping, handling & service fees • Markdowns/ sell-offs • Consolidated purchasing discounts • Competitive bids	• Flexible pickup and delivery options • Split shipments • Consolidate orders • Factory direct shipping • Advance shipment notification • Inbound receipt visibility • Backorder management	• Cross-channel uniform processes • Integrated inventory availability • Inventory transfers and stock balancing • Optimize ship/ pickup location • Allocation of shipping charges • Automated receiving • Store fulfillment, store pickup • Value added services	• Inbound product visibility • Order updates to customer • In transit tracking • Monitor inventory for forecast variance • Monitor returns and optimize response • Exception and alerts resolution • Returns disposition	• Exception reporting and handling • Tax application • Credit adjustments and refunds • Allocation of cross-channel margin contributions • Receipt verification and PO monitoring • Trade discounts • Invoice Processing • Vendor compliance	• Unified return, exchange and credit policy • Return via any channel • Return shipping charges • Cross-channel credit allocation • Updated customer history • Return to vendor • Returns disposition • Returns reason code analysis

Service Management		
• Integrated Customer Profile/History • Integrated Supplier Profile / History	• Common Item data / hierarchy • Real time communications	• Exception Management • Supplier scorecard

Figure 4: Core capabilities continuum for multi-channel retailers [Source: Infosys 2006]

For example, if a retailer has high inventory carrying costs, poor inventory visibility across multiple channels, high stock obsolescence and low inventory turns, they may choose to begin the journey by focusing on their fulfillment capabilities to gain the quickest ROI. Once the inventory solution is designed and is being implemented, the retailer may determine that the next area of focus should be the order capture and validation capability space.

As the capability gaps are identified, the capabilities should next be evaluated against the benefit levels that will be achieved by implementing solutions to bridge the gaps. Figure 5 illustrates how customer satisfaction rises as different capabilities are implemented. At this point, a sound implementation strategy should be formulated to enable the organization to move toward their end goal of creating a uniform customer fulfillment experience and increasing customer satisfaction.

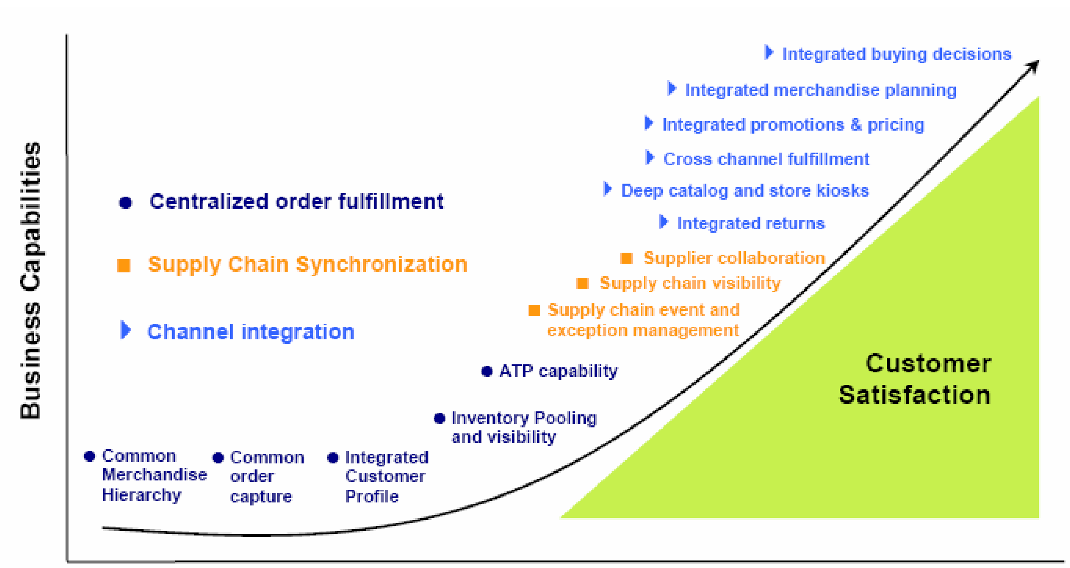


Figure 5: The journey of Multi-channel integration and beyond [Source: Infosys, 2006]

4.3 Requirement for Integration

By enabling customers to use multiple channels during their interaction with retailers, multi-channel integration provides the platform to fulfill these consumer desires and thus leads to the synergies presented above. While the existence of these synergies becomes now widely recognized, however, it is less clear what requirements and options multi-channel integration involves for retailers' channel strategies. At present, most retailers are still experimenting with different solutions and strategies.

In the following, six elements are proposed by Daniel Goersch [2002] to reflect the coordination and integration requirements of multi-channel integration in terms of the customer interface (i.e., the sum of all touch-points between retailers and customers). In other words, these elements determine how customers perceive the interaction with a multi-channel retailer during the purchase and consumption process in terms of their ability to utilize different channels.

4.3.1 Branding

Integrated branding across channels, i.e., using the same brand name, logos, slogans, and colors as well as conveying the same image across channels, should strengthen customers' perceived association between channels. This improves awareness creation (e.g., often consumers simply type in the name of a retailer to find the Web site) and trust (a brand is a surrogate for factual information about a retailer and the quality of its products). Moreover, encountering the same brand name in multiple channels should enhance consumers' awareness of the brand itself.

4.3.2 Channel cross-promotions

It comprises the provision of information on other channels as well as financial incentives for using them (e.g., coupons). Cross-promotions serve as a means to direct customers to other channels and to strengthen customers' perceived association between channels, increasing awareness and trust in other channels. Gateway, for example, successfully employs physical show rooms for this purpose. Similarly, the California-based apparel retailer Gap Inc. views its physical stores as a powerful advertising medium for their Web site. On the other hand, Web sites can be used to drive traffic to physical stores, an option particularly interesting for retailers with store location disadvantages.

4.3.3 Consistency

Enabling customers to utilize multiple channels for their shopping activities leads to the benefits of increased convenience and control as well as reduced risk. This requires that the major product categories are available online and offline; for products available only in one channel, at least information on them should be accessible in both channel. In-store kiosks can be used to give store customers access to products available only online. Products should also be priced consistently, including promotional discounts (e.g., during clearance sales). However, a specially designated Web discount (possibly offsetting delivery costs) might be in order. Consistency should even extend to customer support and policies (e.g., warranties, product return policies). Absence of consistency destroys the customers' association of channels and limits their channel choices. Without consistency in product selection, pricing, support and policies, retailers might not only forgo important customer benefits but also confuse or even irritate customers.

4.3.4 Integrating logistics

This is pertinent to a retailer's ability to offer in-store product pick-up and return as well as informational services, such as online information on store inventories. Gap Inc. reported that customers buying clothing online appreciate the possibility to return products at physical stores, primarily out of convenience and cost reasons. Stores are superior for product sampling and social interaction between customers and sales assistants, catalogs for relaxed browsing, call centers for specific enquiries, and Web sites for information-based services as well as the provision of digital accessories. Multi-channel integration does not mean that channel-specific advantages should be leveled. On the contrary, multi-channel retailers can enhance their customer support by exploiting unique channel capabilities. Through multi-channel integration this enhanced support can then be made available to the entire customer base. Ultimately, such a division of labor should also lead to cost savings. However, this needs to be carefully implemented, as customers might get irritated when essential services or products are only available at channels to which they do not have access.

4.3.5 Information management

It is with the help of customer information that companies can create a personalized environment for their customers. This not only improves the manner in which they respond to customer needs, it even allows them to actively anticipate those needs [Winer, 2001]. Furthermore, customers should also be given access to their personal information across channels. Channel-spanning personalization thus necessitates the collection of customer information in all channels, their integration, and their use for sales support across channels. A major difficulty of cross channel information management is that customer behavior may differ across channels. Retailers need to take into account such differences when interpreting the data. On the other hand, comparison of information between channels can help retailers to identify strengths and uncover weaknesses of channels. Finally, retailers need to address privacy concerns of customers.

4.4 Cross-channel optimization

Multi-channel optimization is complex. Retailers need a systematic approach to harness its benefits as they will not accrue to the company automatically. IBM (2005) have developed a multistage framework shown in figure 6 that companies can use to guide their multi-channel strategies and harness the power of cross-channel optimization

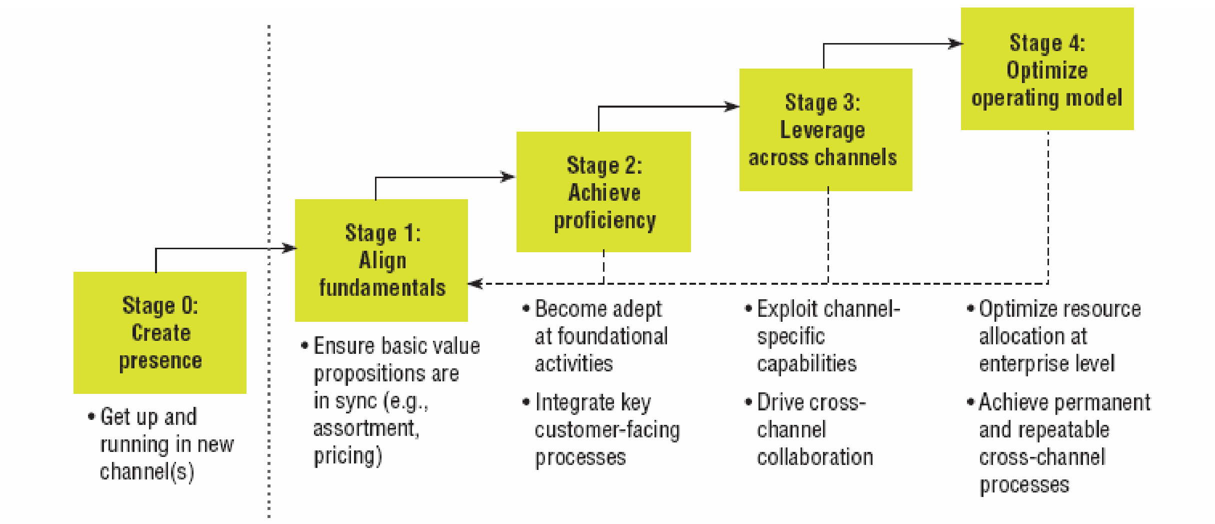


Figure 6: Stages of multi-channel retail evolution [Source: IBM, 2005]

4.4.1 Stage 0: Create presence

The starting point for most retailers is simply to get up and running in a new channel, be it the Internet, a catalog or a new store format. This required identifying infrastructure which is needed to support the new channel.

4.4.2 Stage 1: Align fundamentals

In this stage, retailers address two key questions: What is our strategy to serve our target customer and how is this strategy executed within and across multiple channels

With the growth of the Internet, many retailers have created activity systems to compete in this channel. The key issue is the degree of alignment and compatibility of the activity system with the retailer's overall strategy. Alignment is important because it allows the retailer to present its value proposition in a compatible way in all channels.

Compatibility, in turn, is important because it gives credibility to all channels, especially in the eyes of the customer who sees only "one retailer" brand and not distinct Internet, catalog or store-based divisions. While fundamental aspects of the brand and value proposition need to be aligned, *absolute consistency is not the goal*. For instance, while core assortments should be the same across channels, there may be differences in extended assortments that have a unique role and capability in a given channel.

4.4.3 Stage 2: Achieve proficiency

In this stage, retailers focus on achieving operational proficiency and gaining scale in the new channel(s). Proficiency and minimum operating scale are required to truly leverage the organization's existing assets, as well as those capabilities that are being acquired and deployed to support cross-channel optimization. Further, scale is required for new channels to gain sufficient credibility within the organization and earn greater management attention and resources. There are two key aspect of achieving proficiency in the context of multi-channel retailing:

- First, retailers aim to reduce the costs of performing activities in the new channel by achieving economies of scale.
- Second, retailers respond to customers' emerging shopping patterns and information needs both within and across the different channels.

4.4.4 Stage 3: Create leverage across channels

In this stage, retailers seek to deploy the assets or capabilities developed in one channel into another. Consider the content and graphics developed for a catalog business: This content can be reformatted and deployed in other channels and touch points, such as the company's Web site and in-store kiosks. Strategies that leverage these assets across channels can help eliminate redundant activities that often unnecessarily exist or develop over time in different channels.

4.4.5 Stage 4: Optimize the operating model

In the final stage, retailers seek to optimize their operating models at an enterprise level. Optimization builds on leverage. The basic logic is simple: *If a capability or asset from one channel is systematically available to the other channels, the overall resources or budget devoted by the enterprise to similar or redundant activities can be appropriately adjusted.* For example, if the direct channel can drive store traffic via catalog drops, then the mass media budget of the store organization could be reduced or re-directed to more productive uses.

To optimize their operating model across channels, retailers can follow the three-step process mentioned below

1. The process begins with specifying metrics and collecting data (for example, the volume of sales coming from in-store kiosks and fulfilled through the retailer's e-commerce channel due to products that are not available in the retail store).

2. Next, these metrics and measurements are used as inputs to a response model. (Continuing the example, the *store-kiosk* sales model is calibrated to account for the propensity of customers to substitute purchases of store-based stock for online inventory.)

3. The response model is then used to adjust resource allocation. (Levels of in-store and e-commerce inventory are optimized to reflect consumer willingness to substitute.)

5. Discussion

In today's retail environment, customer expectations have significantly scaled outside the four walls of the physical retail store. Full assortments, competitive pricing, seamless service, easy transactions, rapid order fulfillment and satisfaction guarantees are increasingly becoming the hygiene factor. Since today's customers are increasingly fragmented in the channels they use, they also expect unlimited shopping options with the flexibility to seamlessly channel-hop as they desire. As this evolution evolves, the retail customer of tomorrow will have even higher expectations. An illustration of what options service options a customer can expect in multi-channel retailing is shown in appendix 2. Customer needs convenience of what it buys and from it buys. From searching till buying or returning in some cases, customer needs multiple options to choose from.

Since each channel has distinct disadvantages, customer will continue to use different channels as their needs & desires of the moment dictate. As we have seen from the survey results during boots summer project, customer now intends to use various channels to complete once purchasing process. In the example of electrical beauty customer after browsing through on the website wants to see and hold the product before buying it. With the proliferation of information available and the multiple channels to choose from, the customer tomorrow must be in a command of the when, how, why and where of their shopping experience. Brand loyalty will be as much a factor of ease, convenience and choice as of price. The savvy retailer must recognize the importance of empowering their customer and work diligently to provide the tools that are needed to enhance the shopping experience.

During the literature review, I identified that in the plan of launching different channels, it is good to start with one channel at a time and then move forward to another. The multi-channel strategy shall complement the overall business strategy of the organization. Any new channel introduced shall be structured in a way that it matches the company's vision.

It is important to keep the loyal customers which have been created with the existing distribution channels. To capture brand loyalty, the retailer must present a seamless, uniform face to the customer, wherever the interaction takes place. The shopper must be able to reply upon the experience to be the same as it was last time or better. As the internet enables the shopper to research products, compare prices and easily look for attractive alternatives, customer still tend to default to retailers they know rather than purchasing from the unknowns. If a customer is confident that the merchandize will arrive as expected and when it is expected, they are more apt to purchase from the trusted retailers, even if the price if slightly higher. Multi-channel solutions are burdened by some of the legacy processes and systems that form the core of the underlying channels. Multi-channel solutions should focus on simplifying the customer's shopping experience and not make it complex through increased policies and procedures in the customers shopping process.

In planning on an appropriate channel mix and the role of each channel, retailers need to understand that different channels complement one another. For example, while Dell is committed to its direct marketing model, it recently decided to use a multi-channel approach. Dell's decision was in large part based on the need for consumers to see the print quality of its new line of printers and to hear the audio quality of its high-powered multimedia systems. Dell offers samples in selected retail stores and then enable customers to order computers through an in-store kiosk or through its traditional Web- and phone-based order systems (McWilliams and Zimmerman, 2003; *The Online Reporter*, 2003).

We have observed in past that multi-channel retailers have developed strategies that begin with a customer centric perspective and build an organization structure to support change. The implementation of this strategy involves a complex organizational change process and IT strategy to support a common merchandize hierarchy, centralized order management capability and centralized customer and inventory databases.

In the process of integrating organization needs to look at initially its organization structure. Most store and catalog/web operations are likely to have different merchandizing and inventory planning organization structure. Organization need to maintain single or multiple merchandizing and inventory management organizations for different sales channels to determine merchandizing direction. Also, there is a need to define relevant performance metrics to evaluate business functions. Although every channel should be able to address a consumers needs throughout the purchasing process, some channels might be better than others at different point in the process. Offline stores for example provide direct experience of the product as well as social interaction and established logistics systems. Websites can offer easier prices comparisons, around the clock operations, and complete product information – all at a low variable cost. It is important to draw the new structure of organization which complements the framework of the new retail model. One argument is that there can be a strategy on brand level which. It allows the organization to allocate distribution channel to brands depending upon the requirement. Illustration of such organization structure is shown in appendix 3.

Retailers, currently with the traditional high street presence with the intention of moving multi-channel have to face different challenge. People within the organization who are used to the legacy system will need some encouragement to change. This requires push from the top management who has clear strategy of creating a buzz word of multi-channel within the organization. Also, with different channels, organizations will face the difficulty of incentivizing their sales people as the traditional method will not be efficient. As discussed in the literature, rather than focusing on channel by channel it is useful to link with the overall performance of the company.

In term of multi-channel integration, it requires a new organizational model. The one that adapts people processes and technology to meet this coordinated approach to channel management. Redefining the organization, and processes and technology that support it, to meet the multi-channel challenge requires strong support from the chief executive and the senior management team. They need a clear vision of how channel integration will generate business value for the organization and where the main changes need to be in the organization. Decisions will need to be taken on the size of team and skills to ensure the necessary resources and flexibility. Employees must have the right skills to understand increasingly sophisticated customers, analyze customer preferences and create value from these customer relationships, while organizations must train their employees to develop the right skills. Organizational processes must be redefined to overcome organizational barriers, reduce operational costs, increase efficiency and improve the cross-channel customer's experience. This requires designing accurate architecture of multi-channel. An example of a multi-channel architecture is shown in appendix 4.

An organization is unlikely to get it right first time, so it is vital to measure, monitor and review channel integration programs. Financial measures are important but they are a blunt instrument in a multi-channel world where not all channels are used to fulfill or 'close the deal'. Instead a balanced scorecard approach is needed, in which a mixture of relevant strategic and operational measures are applied. This includes customer-focused measures, innovation and learning measures and process measures, all of which drive the financial and value measures. Profit rather than sales targeting, should be used. Consideration should be given to how to measure employees. For example, is Web and call-centre staff going to cooperate or compete if they are given independent targets? Employees should be measured on customer profitability, as opposed to rewards being tied to a particular channel, as this can lead to focus on maximizing returns from that channel. A bricks and mortar employee is unlikely to divert customers to a low-cost Web channel if this reduces his or her bonus. Consequently, single channel metrics should be replaced with cross-channel metrics. This may include crediting one channel for purchases through another channel or rewarding different customer service representatives for their shared involvement in resolving a customer inquiry

To conclude, company need to invest time looking at people, processes, technology, organization and integration aspect of multi-channel before implementing.

6. Conclusion

This paper outlines the concept of multi-channel retailing, understanding its customers, ways to define its strategy and way forward to integrate different channels.

After reflecting on this paper, a retailer needs to assess its readiness to undertake a multi-channel strategy. An organization needs vision following a strategy to be successful. Similarly, to adopt and implement multi-channel, it is required to understand the need and create strategy. Retailer needs to examine different concerns before undertaking multi-channel. This includes organizational readiness in terms of people, finance, infrastructure, logistics and business model. For example, tracking of sales would an important challenge an organization needs to consider. A customer might browse in store but buys it online. For this we have seen that it important to build the perception of organizational sales rather than channel sales. It is important to understand customer's perception about the organization and their acceptance to multi-channel. Multi-channel solutions are burdened by some of the legacy processes and systems that form the core of the underlying channels. The solution should focus on simplifying the customer's shopping experience and not make it complex through increased policies and procedures in the customers shopping process.

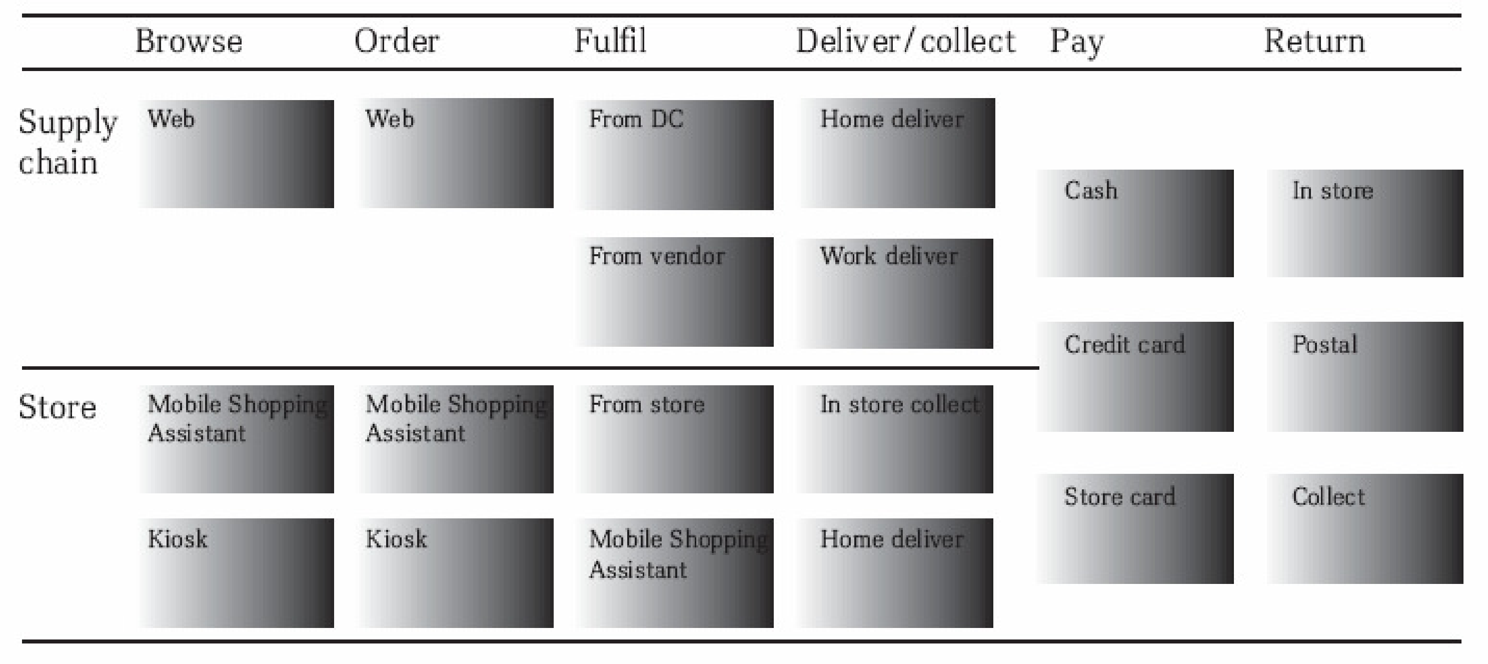
Finally, developing and maintaining a well-integrated channel strategy is not something easily accomplished by all retailers. It needs to examine different concerns, such as organizational and customers before adopting it.

Appendix 1: Best in class competitive framework

	Laggards	Industry Average	Best in Class
Process	Product and customer information entered separately into web, brick & mortar, and catalog systems Customer information entered into separate order systems; duplicates are deleted later by an outside service bureau	Product information entered into one channel system of record and moved electronically into other channels	One process gets product and customer information into all channels' systems of record
Organization	Web, catalog, and brick & mortar businesses have completely separate organizations	One IT organization supports a variety of separate user organizations	One brand identity, one user organization, one IT department
Knowledge	Weekly review of sales vs. forecast, shipments, receipts, and back orders	Daily review of sales vs. forecast, shipments, receipts, and back orders	Near real-time triggers when inventory levels get low, shipments are delayed, or sales varies greatly from forecast
Technology	CRM data may be collected, but is not used in any way	CRM data is available at point of sale	Integrated customer resource management systems provide common information across channels
Measurements	Value of multi-channel retailing initiatives either never measured, measured annually or measured ad hoc	Value of multi-channel initiatives measured quarterly, monthly, or weekly	Value of multi-channel initiatives measured daily or in near-real-time.

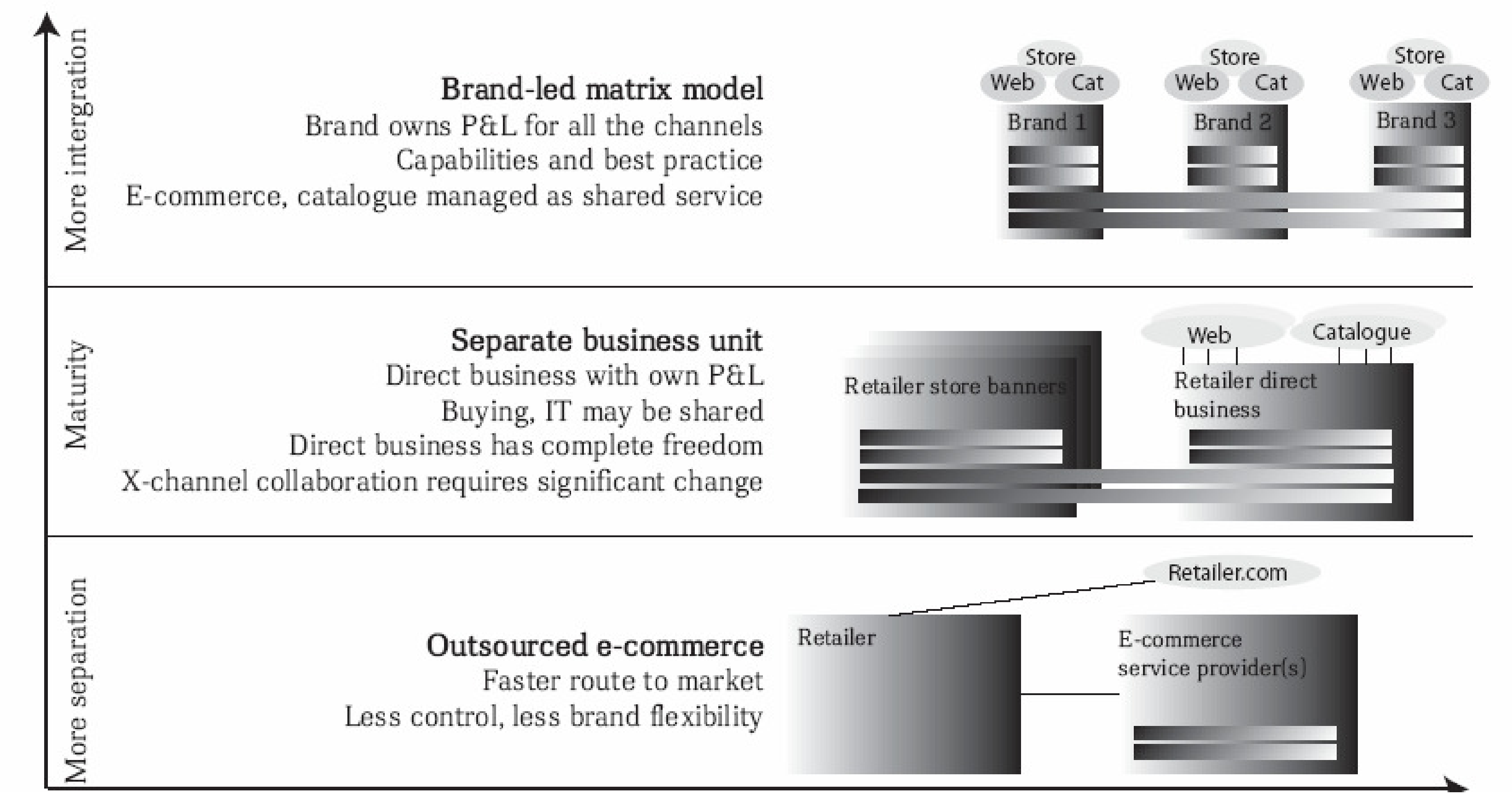
Source: Aberdeen Group 2005

Appendix 2: Multi-channel customer service options



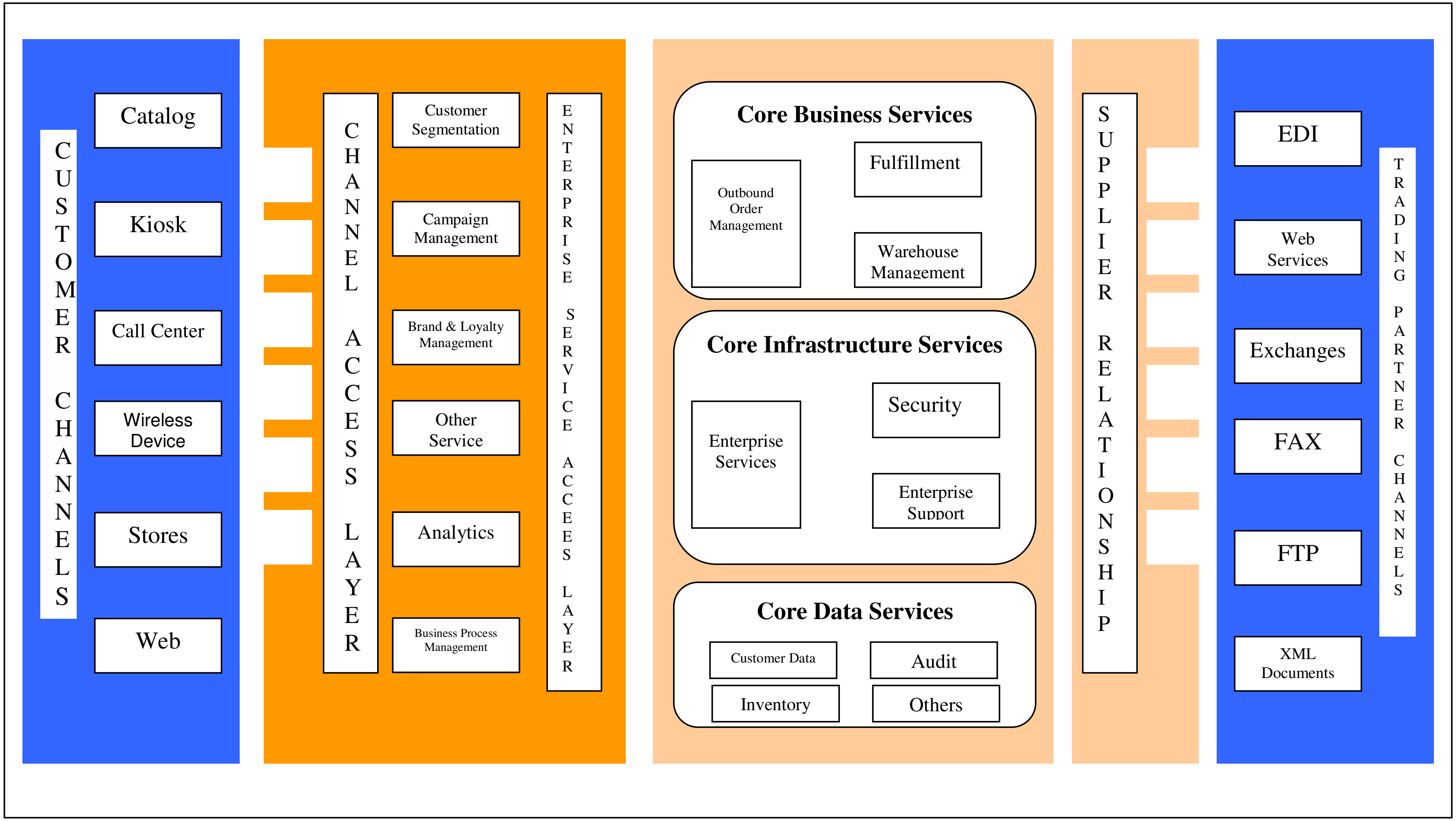
Source: IBM 2005

Appendix 3: A typical multi-channel organization structure



Source: IBM 2007

Appendix 4: Multi-channel Retailing Archtecture



Source: Infosys 2005

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