Project-M: Design Challenges in Multichannel Services

By John Ward

Introduction

Although they are not new, multichannel services are becoming increasingly common. With the emergence of the Web as a viable marketplace, many organizations have added an online channel. However, for either historical or other reasons, many have developed their channels as separate silos. As a result of consumer demand and business necessity, organizations are increasingly integratnig their channels in order to provide customers a more consistent and personalized experience across channels. This has proved a vexing task for many organizations, as it often requires sharing information across organizational boundaries and reconciling seemingly incompatible supply chain models. In this paper I intend to discuss some benefits and challenges of channel integration. While many of the examples that follow come from the retail sector, most are applicable to other sectors.

Terms and Definitions

The term “multichannel” has many possible meanings. In some contexts, multichannel means multi-device. Even within the domain of services, the term has multiple meanings. Before defining multichannel, we must first define “channel”. For the purposes of this paper, a channel is “the means by which suppliers of goods or services provide access to those goods or services.” Examples of channels include retail stores, Web sites, mail order catalogues, and kiosks. A service is multichannel if consumers can access it through more than one channel. Examples of multichannel service providers include:

- Banks that allow customers to manage their bank accounts at physical bank branches and via the Web
- Retailers that sell goods in physical stores and via mail order catalogues
- Government organizations, such as the California Department of Motor Vehicles which enables customers to renew vehicle registration via the Web, by mail, or in person at DMV offices.

How much integration is best?

In the early days of online retail, many companies opted not to integrate their brick-and mortar channels with their online channels. One reason for such separation was a fear that the online channels might endanger existing brick-and-mortar channels. (Goersch, 2002; Iqbal, 2003) Barnes & Noble is one example of a company that kept channels separate. Instead of integrating its e-commerce channel with its existing brick-andmortar operation, Barnes & Noble spun off its e-commerce channel as a separate stand-alone company. Unfortunately, by keeping its brick-and-mortar and online stores separate, Barnes & Noble lost many of the benefits of channel integration. In addition to forfeiting opportunities for cross-channel promotion, Barnes & Noble's e-commerce channel was unable to benefit from the economies of scale it could have gained as a result of the brick-and-mortar channel's market share and purchasing power. (Gulati and Garino, 2000)

Benefits of Channel Integration

Organizations can often benefit by integrating a new channel with an existing channel. In the case of the retail sector, consumer research suggests that customers are more likely to develop trust for an online store if they can associate it with an existing brick-and-mortar store. Moreover, it is far less costly for brick-and-mortar stores to bring existing customers online than it is for Internet-only retailers to acquire new customers. (Goersch, 2002; Iqbal, 2003) Another benefit of integration is that multichannel shoppers tend to be more profitable than single-channel shoppers. On average, they are more loyal and tend to spend more than single-channel customers. (Goersch, 2002)

Customers prefer to shop offline

Despite the rapid growth of the e-commerce channel, retailers are increasingly using this channel to drive customers to physical stores. This is, in part, because, on average, customers are more comfortable purchasing physical goods in brick-and-mortar stores than in online stores. "Among customers who have avoided online purchases, 42 percent said that they prefer to see the item before they but it." (Tedeschi, 2007) Many customers go retail Web site solely to gather product information or to comparison shop. (Santosus, 2004) According to a 2004 Forrester Research study, a majority of online shoppers prefer to make their actual purchase offline. (Johnson, 2004)

Ship-to-Store

In response to customers' reluctance to purchase online, many retailers have adopted a marketing strategy known as "Ship-to-Store", which enables customers to order products online and then pick them up in a physical store. Customers benefit by avoiding shipping charges, and retailers benefit by drawing customers into stores. (Tedeschi, 2007) REI.com successfully employed such a strategy. According to Joan Broughton, REI's vice president of multichannel programs, "One out of every three people who buy something online will spend an additional $90 in the store when they come to pick something up." This may have resulted in a 1 percent increase in store sales. (Santosus, 2004) Walmart has had similar success with its "Site to Store" program. According Raul Vazquez, Walmart.com's chief executive, "Sixty percent of customers who order on Walmart.com and pick up items in the local store purchase an additional $60 worth of goods at the store." (Tedeschi, 2007)

Integration can improve customer service Another benefit of integrating an e-commerce channel with a brick-and-mortar channel is improved customer service. Customers perceive less risk about ordering online if they know they can return products to brick-and-mortar stores. (Gurati and Garino, 2000) For example, customers of gap.com appreciate being able to return goods to the Gap's physical stores. (Goersch, 2002)

Increased Personalization

Multichannel integration also affords retailers more opportunities to gather information about customer preferences. For example, when customers browse and navigate ecommerce web sites, they leave a behavior trail that can be recorded and analyzed. (Iqbal, 2003) By using customers' personal information from all channels, retailers can launch more targeted and personalized marketing campaigns across channels. With successful back stage integration, retailers can develop a single cross-channel conception of a customer, which, according to customer research, leads greater customer satisfaction and retention. (Goersch, 2002)

Integration Challenges

While channel integration can bring many benefits, it has proved challenging for many organizations. Depending on the history and evolution of an organization's channels, the organization may face structural hurdles to integration. The question of what to integrate is complicated by the fact that business processes, such as demand planning and product selection, vary by channel. (Jandial, Ogawa, and Sekharan, 2005)

Supply Chain Challenges

One complication to integrating Web-based stores and brick-and mortar stores is that the ideal supply chains for both are different. For example, requirements for product returns differ significantly between the two channels. For a typical clothing retailer, customers return products two to five percent of the time. However, at Web-based clothing stores, the rate of product returns is an order of magnitude higher. This means that e-commerce requires a reverse supply chain that is not required for the physical store. (Metters and Walton, 2007)

Another difference is that the warehouse requirements for the e-commerce channel vary greatly from the warehouse requirements of the brick-and-mortar channel. Due to limitations on physical space, and due to marketing considerations such as ambiance, physical stores often stock only a limited subset of products available through a company's e-commerce channel. For example, Blockbuster Video's brick-and-mortar stores typically carry approximately 5000 movies titles. However, Blockbuster Online carries 50,000 movie titles. (Metters and Walton, 2007) This discrepancy in product assortment between channels can complicate the process of product returns because not all items purchased online can be returned and restocked in a physical store. (Metters and Walton, 2007)

Additionally, the physical design of the warehouses that support e-commerce is generally different than the design of the warehouses that support brick-and-mortar stores. For brick-and-mortar retailers, warehouses tend to have large aisles that can accommodate forklifts, and tend to have aisles as a high as forklift truck forks can reach. (Metters and Walton, 2007) Unlike the e-commerce channel, brick-and-mortar retailers tend to ship product by the pallet load. (de Koster, 2003) E-commerce operations, on the other hand, tend to use a strategy known as "pick-and-pack". Warehouse aisles tend to be narrow since only a human need enter. Aisles also must be relatively short in height, and items must be in open boxes so humans can pick out items one item at a time. (Metters and Walton, 2007)

Additionally, the warehouse management information systems at distribution centers must support both pallet-load shipments to brick-and-mortar stores as well as pick-and-pack shipments to individual customers. Not all warehouse management information systems support both types of distribution. (de Koster, 2003)

How companies have responded to this challenge varies greatly and depends, in part, on the market they serve. REI's solution is to use contiguous Internet and retail warehouses. Other companies have successfully integrated Internet and brick-and-mortar channels by orienting around their brick-and-mortar supply chain. Many accomplish this by shipping in bulk to brick-and-mortar stores and then fulfilling Internet orders by hand, picking items from the brick-and-mortar stores' inventory. CompUSA and the Gap employ this strategy. One tradeoff of this approach is that it requires that the product assortment in brick-and-mortar and e-commerce channels be the same. Since a potential advantage of an e-commerce channel is that its product assortment need not be limited by the space limitations of physical stores, multichannel companies that fulfill Internet orders using their brick-and-mortar supply chain forfeit this advantage. (Metters and Walton, 2007)

Conclusion

Due to the boundless variation in markets and organizations, there is no single integration model that is appropriate for all cases. The question of whether or not an organization should integrate channels or how much to integrate channels appears to depend on the specific organization's constraints and business needs. Every form of channel integration brings its own set of tradeoffs. In the context of bridging the front stage and the back stage, adding additional channels essentially creates multiple front stages. In many cases, organizations can benefit by presenting a unified user experience across these stages. However, doing so may present great technical, structural, and logistical challenges.

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