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Keywords: multichannel, customer experience, integration

Channel evolution: How new multichannel thinking can deliver competitive advantage

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Received: 2 February 2009

Abstract

This paper examines best practice in multichannel marketing, based on a survey of firms across sectors and sizes. Its principal findings are that the first phase of multichannel marketing implementation, focussed on the switch to low-cost channels, is now well advanced, and is making a transition into a second phase. In this phase, multichannel marketing offers the advantage of not only lower costs, but also greater customer preference. The most important activities required in moving into this second phase are focus on the customer experience, integration and interactivity of channels and adaptation of metrics to reflect this new focus. The paucity of firms currently making the transition to this second phase of multichannel activity offers opportunities for those firms still able to adapt.

Journal of Direct, Data and Digital Marketing Practice (2009) 10, 329–335.
doi:10.1057/dddmp.2009.4

Background

This paper is based primarily on two recent publications by the authors: *The Multichannel Challenge*¹ (Butterworth Heinemann, 2008) and Cranfield School of Management white paper *Multichannel Customer Management: The State of Play*.² Methodology and sample information for the white paper are outlined below.

Methods

From January to August 2008, 150 managers participated in a study investigating the state of play of multichannel customer management. A 20-question survey instrument was used to identify current channel use, channel integration and customer treatment across channels, and to ask opinions on the main pressures for change.

ANOVA was used for all variables but B2C/B2B, where Independent T-tests were used. Where Levene's statistic was not significant and therefore equal variance can be assumed, Tukey HSD *post hoc* tests were used, except with market-share data, where Hochberg GT2 tests were used due to significant differences in sample

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sizes. Where the Levene statistic was significant and therefore equal variance could not be assumed, Games Howell *post hoc* test was used.

In this article, each statement concerning the nature of a relationship between variables was tested using appropriate statistical techniques. More information, if required, can be obtained by contacting the author, Dr Krista Bondy.

Sample details

The sample was differentiated on five characteristics: size by employee numbers, size by customer accounts, rate of growth, change in market share and proportion B2B/B2C. The sample contained a higher proportion of larger companies by employee numbers, with 41 per cent having more than 10,000 employees, but a relatively equal spread of companies with different numbers of customer accounts. Fifty per cent of these companies were B2B, spanning a range of growth rates, and where most were growing either quickly (12 per cent) or slowly (53 per cent) and where 17 per cent were static.

Introduction

As many management researchers have noted, the natural world is a good metaphor for the business world. Survival is closely correlated to adaptive capacity and firms developing new capabilities to meet the challenges of changing markets just as species evolve to survive in their ecological niche. This view of the business world sees best practice as analogous to an evolutionarily useful adaptation, driven by competitive selection and useful only as long as it suits the environment.

Unlike some other areas of management, best practice in channel marketing is still evolving

In some areas of management, best practice can be described as stable. In market segmentation, for example, best practice is, in principle, not markedly different from the concepts defined in the late 1950s.³ Life cycle theory, developed from ideas about how innovative ideas diffuse, is only slightly younger.⁴ When it comes to channel marketing, however, best practice is still evolving in an effort to adapt to a turbulent, constantly changing environment. What this means for executives is that they must monitor the business landscape, adapting and evolving to keep pace with the best if they want to be at the leading edge. In channel marketing, as in nature, the key to survival and success lies in evolutionary advantage.

The purpose of this paper is to help executives understand the current state of play and what best practice looks like. The good news is that those who rise to the evolutionary challenge can survive and thrive in their competitive multichannel environment. The bad news is that some firms are slow to adapt, and many executives will find that their current models risk extinction.

The multichannel landscape

Multichannel marketing is the child of two remote environment drivers, those indirect forces that push the market inexorably in its long-term

Multichannel marketing has evolved out of technological possibility combined with cost pressure

Most companies have now achieved the immediate multichannel goal of reducing cost to serve

Multichannel marketing offers greater potential than just cost savings

At its best, a good multichannel strategy can deliver stronger brand preference and customer loyalty

direction.⁵ On the one side, it has evolved from the opportunities afforded by technological developments — advanced telephony, the Internet and widespread consumer access to computers all combine to make multichannel marketing a technical possibility. On the other side, it has evolved from cost pressure — constant demands to deliver greater shareholder value in the face of low-cost global competitors, facilitated by less brand-loyal, marketing-savvy consumers. Together, these two unstoppable forces made the provision of alternative, lower-cost channels to market not only possible, but necessary.

Historically speaking, channel marketing was all about reducing the cost to serve. The aim of the game was to ‘bolt on’ lower-cost channels (such as the web-based outlets or an offshore call-centre) and encourage customers to use these rather than the expensive channels that they were used to (for example, a bank branch network or face-to-face salesperson). To a large extent, this immediate aim has now been achieved. Some companies have shifted much of their activity to low-cost channels and are enjoying the financial savings as a result. Our recent research revealed that larger companies (those with more than 1,000 employees) were more concerned with reducing the cost to serve than smaller companies.

For mass-Customer Relationship Management companies, small changes in the channel model can have very dramatic cost impacts, and the potential gains have not yet been bottomed out. In this sense, business evolution has improved upon natural selection, and it is the biggest creatures that have adapted best and gained most.

Evolution, however, is a dynamic process, and cost reduction is beginning to shift from being a competitive advantage to being a survival necessity. As many take advantage of low-cost channels, multichannel marketing is shifting from being not merely a matter of efficiency, but also one of effectiveness in creating customer preference. In this ‘new’ world, operating through multiple channels offers much greater potential than just cost savings; it has become a point of competitive pressure. Multichannel marketing is now a core part of an organisation’s retention strategy, an opportunity to gain insight into customer needs and drivers, and an essential element of any cross-selling or up-selling targets. As well as their own company’s goals, executives also need to be cognisant of competitor activity and customer expectations. It would simply be inconceivable now to imagine a bank that did not offer an online banking facility, a corporate IT supplier without 24h telephone support or an estate agent without a well-structured Internet search facility.

We are now entering a ‘new age’ of multichannel marketing, one in which a multichannel strategy must deliver more than just cost savings. As a minimum, it must now deliver greater value to the customer and an enhanced customer experience; at its best, it can improve customer loyalty and engage customers to deliver stronger brand preference.

Our research confirmed what good executives have suspected for years: channel use is changing. The channel mix now includes higher proportions of digital, interactive channels, with an explosion in the use

Email and web channels are growing faster than other channels

Customers require interactivity customisation and a seamless experience

In later stages of multichannel implementation, the channel mix will become leaner, taking customer experience into greater account

Larger companies are better at integration than smaller companies — but very few have true integration

of web and email in the last three years. In our survey, use of web and email channels has grown by over 70 per cent. Indeed, email and web channels are growing much faster than other channels, and this may account for the slow decline in the retail/outlet channel as more purchases are made online, making the retail/outlet channel an overly costly part of the channel mix. However, what our research showed even more strikingly was that there was a general growth in the channel mix overall — in other words, customers are using a greater *variety* of channels.

What this implies for multichannel executives is that, to deliver the best possible results, the customer experience must be interactive, seamless and customised.

The importance of interactivity

Based on current channel use and change patterns, it is clear that interactivity is a key feature of today's channel mix. The current use of face-to-face and telephone channels *in combination* with the vast growth in web and email channels suggests that companies are working towards the highest level of interactivity for a low, but not the lowest, cost, with cross-sell/up-sell being of more importance than reduced costs. We expect that, as companies enter later stages of multichannel implementation, and as they continue to focus more effort on digital channels, the channel mix will be leaner, and will look very different from the way it does today. Multichannel approaches will also take customer experience and the needs of channel-hopping customers into greater account.

A seamless experience

Many companies are doing well at offering customers a choice of channels. However, this increased range of channels needs to be complemented by integration in the customer experience if customers are to enjoy the seamless experience they expect. Our research suggests that integration becomes easier with size — managers from companies with a larger number of customer accounts were more likely to believe that customers receive the same information across all channels. However, overall, companies in our research reported that they have

Figure 1: Degree of web integration with other channels based on company size (customer accounts)

Integration is more important to customers than any other aspect of channel marketing

yet to crack this problem, and fewer than 15 per cent of managers surveyed felt that their web channel was completely integrated with other channels (Figure 1).

Does this matter? It certainly matters very much to the customer. Our research indicates that a seamless experience is a more important driver for customer satisfaction, repeat purchase and advocacy than any other aspect of channel marketing. In other words, integration is king, if the organisation wishes to satisfy and retain customers.

The bad news is that few companies have mastered this. In our research, only telephone and face-to-face channels were even moderately well integrated (Figure 2). The good news is that such lack of performance by the general market means that the organisation that *does* offer a well-integrated multichannel experience is likely to command a high level of customer satisfaction and loyalty – at least until the competition catches up.

Clearly, integration is a major challenge. With 53 per cent of companies having launched an ‘explicitly multichannel’ initiative in the last three years, it is surprising to see such a low level of success. Our research indicated that there is no statistical relationship between whether a company launched a multichannel initiative and integration of any of the channel pairs. This all supports the notion that companies are in early stages of multichannel implementation, but still have work to do in taking these explicitly designed channel strategies and making them truly consistent and integrated across all channels.

Apart from the utopian ‘seamless customer experience’, one reason why integration is important is that, without it, it is difficult to individualise sales and service propositions to specific customers as they cross between channels.

Figure 2: Integration of channel pairs

To what extent are the following channel pairs well integrated, enabling a customer to easily start a journey in one and continue it in the other?

Good customisation improves cross-sell and up-sell results

Individualisation

The importance of being able to individualise the offer should be self-evident. Successful customisation creates value for customers by delivering a better experience. But the value is financial as well as experiential. Customers presented with an *appropriate* cross-sell or up-sell offer are far more likely to purchase — *and* to feel that they have been given good service into the bargain. The best organisations are those that use propensity models that calculate an individual customer's likelihood of responding positively to a given offer. However, for the time being at least, good segmentation and customer insight used effectively to customise offers to different segments will put many organisations ahead of the average.

Multichannel metrics still lag behind multichannel strategy

The vital role of metrics

If interactivity, integration and individualisation are three of our key measures, there is at least one significant reason why many companies have yet failed to deliver really well in the multichannel environment. The implication of changing these things is that metrics and measures must also change. And our research has proven that metrics are, at best, only adequate in most organisations, although there are many techniques that can be used to improve this (Wilson *et al.*,¹ pp. 176–198).

Channel integration lags behind channel provision, and immature metrics prevent many companies from achieving excellence in multichannel marketing

Conclusions

Our research suggests that the multichannel evolutionary leap is making the transition into its second important phase. While companies report that they are better at dealing with early phases of multichannel implementation, such as the increased provision of channel choice, much work is still needed to move forward into later implementation stages where channel integration and individualisation are key levers to achieve benefits. Metrics are also immature: companies need to measure the impact that their channel strategies are having on customer behaviour and use this insight to improve their overall performance. If better measures were in place to identify customer behaviour both within and across channels, companies would be more aware of the importance of multichannel integration.

A good multichannel strategy is now a necessary part of an overall marketing strategy. Customers value a well-integrated, customised multichannel experience and, increasingly, demand it. Furthermore, competitive pressures have changed the way that we have to approach multichannel marketing.

The good news is that there is enormous potential value — both financial and non-financial — to be claimed by those few firms that have successfully made the transition into the second phase of value-adding multichannel marketing. Such firms will not only gain the benefits of lower costs, but also the advantages of greater margins and higher retention. For those companies that lag far behind customer expectations and demands, the evolutionary metaphor

holds true — extinction, or at best retreat into a low-value niche, is an inevitable consequence of their poor adaptive capacity. For those firms that still have time to adapt, this, of course, means there is an opportunity for competitive advantage, as the ‘benchmark’ remains sadly low.

Our recommendations in light of this research are straightforward. Clearly our best efforts at encouraging multichannel change have not translated into consistent management practice. This means that managers need to be aware of the gaps between theory and practice that exist within their organisation and need to be prepared to work with individuals, providing them with the skills necessary to achieve successful multichannel practices. These practices are common sense and well understood, but need to be given appropriate resources within the organisation and the room for managers to implement them. Design your research to understand what really matters; how customers *feel* about their experience may be different from what they *think* about it. Build an integrated multichannel offer that satisfies the needs of target customers but without over-servicing them. Give customers channel choice, but encourage them to use lower-cost channels by making it easy and hassle-free to do so. Provide seamless links across channels so that customers can channel-hop with ease and most will naturally follow the path that is easiest. When it comes to metrics, there is potential for competitive advantage for those who can monitor the impact on customer experience of the overall multichannel structure, rather than viewing channels independently. In short, focus on real drivers of satisfaction, retention and share of wallet and measure them carefully; success will follow.

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