Papers

Mike Bazett

is managing consultant, public sector business change, at IBM Business Consulting Services.

Ian Bowden

is a consultant on business dynamics at IBM Business Consulting Services.

Jennifer Love

is managing consultant, business dynamics, at IBM Business Consulting Services.

Rod Street

is a partner and CRM North Region leader at IBM Business Consulting Services.

Dr Hugh Wilson

is senior research fellow and director of the Multichannel Marketing Club at Cranfield School of Management, UK.

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Measuring multichannel effectiveness using the balanced scorecard

Mike Bazett, Ian Bowden, Jennifer Love, Rod Street and Hugh Wilson

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Abstract

How effective are your marketing and sales channels? This question was hard enough before the increase in channel options enabled by the internet and the call centre. It is made more difficult still by the tendency of today's customer to channel hop, picking up advice from one channel, transacting in another and receiving service via a third. As a result, tracking the effectiveness of a route to market requires a set of metrics and not just one measure. This paper discusses a balanced scorecard approach to the development of such a metrics set. It illustrates the approach with reference to a multichannel retailer, and discusses some implementation issues such as the impact on individual targets and rewards.

The role of metrics

Choosing what to measure is one of the most powerful means organisations have of making their strategy happen. 3M maintains its reputation for product innovation by tracking such metrics as the percentage of sales deriving from products released in the last five years and, more recently, the number of new product ideas judged viable. easyJet never ceases to look for ways to reduce costs per available seat kilometre, now down to an extraordinary 4.19 pence, celebrating every small improvement in the contributing drivers such as the internet sales percentage (now 96.3 per cent) and advertising spend, and turning the tables on the airports which determine substantial chunks of the cost base by engaging them in competitive tendering for easyJet's new business.¹ By contrast Sears Canada, basing its competitive strategy on quality of customer service, tracks employee satisfaction, customer retention and revenue — and models the relationship between these key variables, so it knows that a 5 per cent rise in employee satisfaction delivers a 1.7 per cent increase in customer loyalty and a 3.4 per cent increase in profits.²

Conversely, when metrics are out of kilter with strategy, behaviour will be, too. To start with, operational people spend their time — and, worse, the customer's — doing the wrong things. For example, in an IBM project in the consumer goods industry the sales force was targeted on call rate. IBM's study found that one customer was visited 134 times in the course of a year, a monumental effort which delivered the princely order total of £94.³ Furthermore, without a clear metrics set aligned with corporate

Hugh Wilson
Multichannel Marketing Club
Cranfield School of Management
Cranfield
Bedford
MK43 0AL, UK
Tel: + 44 (0)1234 751122
Fax: + 44 (0)1234 751806
E-mail:
hugh.wilson@cranfield.ac.uk

strategy, evaluating the business case for major projects can be a random, political affair, with the proponents of a project choosing the metrics which most support their case.

Most fundamentally, the wrong measures can lead to the company being strategically blindsided. British Airways was slow to spot the change in structure of the airline market, believing that corporate travel was immune to the low-cost model long after an analysis of its own internal data might have told it otherwise. And it remains to be seen whether Virgin's traditional flat-fare approach to train pricing proves to require a similar transformation towards the dynamic pricing model of its airline.

Metrics lagging behind change

In general, a changing world can leave our metrics lagging dangerously behind. A key metric in most professional service firms, for example, has historically been utilisation, the number of hours per week a consultant spends on chargeable client work. But more price variability and the growth of complex deal structures such as shared risk/shared reward and solution-related projects have left many companies needing to supplement this measure with others to reflect better the sources of revenue and contribution.

Metrics in a multichannel world

A fundamental change that has left many organisations measuring on outdated principles is the trend towards multiple, intertwined channels to market. When the sales force achieved the sale on its own, it could be tracked, managed and remunerated on the percentage of leads it converted, the sales revenue it generated and so on. But how does this reflect the complementary role of the website in providing information about the product range, or the role of the service centre in cross-selling? And how about sales in which the sales force plays a part but which are fulfilled by remote channels?

Similarly, the success of a B2C internet channel cannot be assessed purely on the basis of sales made on the website. A high-street chain has told us that for every £1 of revenue it takes on the web, £3 are spent in the store after browsing online — so it works equally hard to help these customers through such facilities as store locators and information on the nearest store with a particular product in stock. And in the opposite direction, 64 per cent of US internet purchasers say they sometimes browse in stores and then buy online — up from 50 per cent in 2001, showing the trend towards multichannel behaviour.⁴

Motivating the channel barons

So particularly where the organisation is structured around channel silos, ways must be found of ensuring that the channel barons who head them up are motivated to act in the best interests of the customer and the company, rather than maximising the sales and minimising the costs of that particular channel. This means developing a single set of metrics for the multichannel route to market as a whole.

At this point one might ask: 'So what is the best set of metrics for a multichannel company?' Unfortunately, this is a bit like asking what is the best car: it all depends on whether you are a family of four with a dog looking for the right vehicle for the weekend, or an image-conscious

Metrics following strategy

single person looking to impress. If what you measure is a key lever for achieving strategy, then good metrics sets are as individual as the strategy itself — and no one ever tells us that their strategy is identical to that of the competition. So there is no way round the time-consuming process of determining the right metrics for the circumstances. Although the end result we are looking for is a reasonably parsimonious set of key measures by which to steer the customer-facing parts of the business, to arrive at this important choice correctly takes a fair amount of work.

If the authors cannot present a universal answer, then they can at least give an idea of how to ask the question. This paper will give a flavour of what is involved by describing the development of a metrics set for a multichannel retailer, using a well-oiled IBM process for the development of balanced scorecards. This example is a fictional one, albeit based on a composite of experience of several multichannel organisations.

Understanding cause and effect

A multichannel retailer

This well-established company comes from a bricks-and-mortar background, but over the last few years has added a transactional website as well as traditional catalogue-based home shopping. It has also diversified into different store formats. While its target segments vary in their price sensitivity, its positioning can be broadly described as differentiated rather than price-focused. Its switch to a multichannel strategy was accordingly driven by the desire to provide a convenient set of options covering a range of purchase situations, and thereby to increase share of wallet, rather than by any hope of reducing costs through a switch to lower-cost channels.

The driver tree

The IBM process draws on long experience of the ‘systems thinking’ tradition that provides the best underpinning to metrics design. It first involves the creation of a ‘driver tree’ showing cause-and-effect relationships between the objectives of the multichannel strategy and the key drivers influencing them. Developed over several workshops with a small team of managers, the driver tree is illustrated for the retailer in Figure 1. This tree is clearly much too complex to use on an everyday basis, but this complete picture of potential measures provides a necessary precursor to selecting a manageable subset for a multichannel balanced scorecard.

The model begins with the key objectives of the multichannel strategy, towards the right-hand side of the diagram. For this retailer, these are primarily focused on customer satisfaction and revenue generation and protection: for example, increasing ‘share of wallet’ by extending the product line and the range of shopping occasions, as well as increasing customer market share through improved geographical coverage. The retailer also set an objective of ‘sweating the existing assets’ — that is, making the best use of capital assets such as physical stores. For example, it makes more sense in terms of return on capital to serve home-shopping customers through existing stores rather than invest in dedicated picking centres. This formed part of the small area of the network concerned with cost (at the top of the tree): one would expect a price-focused retailer, by contrast, to have a particularly well-worked cost-focused branch.

Figure 1: Driver tree — Multichannel retailer

Multichannel contribution

The overall financial objective is of ‘multichannel contribution’, a measure of revenue minus direct product costs and costs of running the channels. The company considered the use of customer lifetime value here, but concluded that this would leave flighty, low-spending 18-year-olds at the top of the pile and anyone much over 45 at the bottom, and result in excessive ‘robbing today to get tomorrow’.

As well as the objectives themselves, the model includes the key drivers of these objectives, which are defined as variables with a high impact on one or more objectives and over which the organisation has high influence. Their direct or indirect impact on the objectives is shown with lines on the driver tree. (Where a driver impacts on several different variables, all but one of its appearances in the chart are shown in brackets.)

Some of these drivers relate directly to the customer experience, such as ‘Customer time to achieve purpose’, which in the case of placing an order is around five to ten minutes for an experienced web customer, as against 20–25 minutes to place a telephone order. Others are enablers of this experience, such as IT integration, a crucial influence on such variables as the customer’s perception of an integrated experience across channels, and the quality of the company’s integrated view of the customer.

Integration aids innovation

The often long and painful process of IT integration also, perhaps surprisingly, aids with channel innovation rather than being in tension with it. One of the reasons why Tesco.com pulled ahead of its rivals was that, from an early stage, its loyalty card data were integrated across channels. This enabled greater personalisation on the website, as customers could pick from a list of their previous in-store purchases as well as their online ones, and spend loyalty points through either channel — service innovations which key competitors took some time to match.

Choosing key metrics for a scorecard

This driver tree looks complex, and generally they are. The fact is, though, that successful multichannel strategies depend on many factors, relating to people, processes, technologies and customer perceptions as well as products and physical assets. And this complexity needs to be understood if we are to choose the right metrics to follow.

Don’t create a measurement industry

But if we were routinely to track every variable on the tree, we would be in danger of creating a measurement industry and burying ourselves in complexity. And what is more, this complexity of metrics would be quite unnecessary. At its simplest, if A influences B which in turn influences C, it will probably suffice to measure just A, or perhaps A and C. So by adopting this kind of thinking, we need to define a sensible subset of the variables to steer our strategy. We want a small list or scorecard which will, with sufficient confidence, enable us to track progress towards our strategic objectives. How will we know if we have got the scorecard right? The authors like to ask if the directors responsible for channels to market would willingly link half their salary to it: if the answer is ‘yes’, one is probably along the right lines.

Broadly, this choice involves making a selection of variables which do the following.

- Cover the tree horizontally, incorporating a mixture of objectives and their drivers. The drivers are important because they show why the objectives are — or are not — being achieved. They can also act as an early-warning system: a decrease in staff satisfaction may not show up in the financials for some months or even longer.
- Cover the tree vertically, so important branches of the tree (such as the branches relating to ‘effective staff’ and ‘quality of customer experience of channel’) are represented.
- Can be viably measured. But this consideration is generally secondary, only coming into play as a ‘tie-breaker’ if the other criteria have been met and there is still a choice of variables: the authors have a principle that you should measure what counts, not count what it is easiest to measure. Creativity and effort are generally required, once the variables have been chosen, in working out how each can be tracked in practice.

The scorecard for the retailer is shown in Figure 2.

This example scorecard divides into the standard sections of results, core processes, customers and stakeholders and people and knowledge — though these are not set in stone. Many of its items might equally appear in a single-channel organisation, for example revenue, customer satisfaction, price and staff satisfaction. Others, though, reflect the multiple means by which customers deal with this company.

Consider for example ‘Degree multichannel sells up’ in the results quadrant. A major driver of profitability in the low-margin retail sector is the proportion of sales of higher-margin products such as Tesco’s Finest range. So a key benefit of new channels sought by this retailer is increasing this proportion — through higher-margin top-up shops on the internet for example.

**Selling up,
selling across**

Figure 2: Multichannel scorecard for retailer

This emphasis on up-selling contrasts, for example, with much of retail financial services, where because of the high cost of customer acquisition, cross-selling can be the key to getting more lifetime value from the customer. First Direct say that those of their customers who use both online and telephone channels have double the number of the product holdings of those who use only the telephone — and have lower defection rates too. The retailer of this example also considers cross-selling vital, but has decided to focus on up-selling as it believes it has more scope for improvement in this area.

Defection rates are an issue for this retailer, too, so early warning of the customer's propensity to defect is polled regularly and included in the scorecard. Another vital customer measure is their 'perception of added value' — whether they feel the multichannel proposition provides something that they want or need that they cannot get from the previous model. Amazon's book and CD recommendation facility based on past purchases is a case in point.

The multichannel infrastructure

Achieving a channel mix which provides this added value and increased customer revenues is not cheap, however. From new formats such as metropolitan mini-stores to heavy investment in its web channel and supporting logistics, our retailer has been incurring significant capital expenditure as it rolls out its channel strategy, as well as ongoing maintenance costs to keep this infrastructure up to date. To keep an eye on this, the results quadrant includes a measure for 'Multichannel infrastructure costs'. These can of course go down as well as up, through outsourced or consolidated call centres for example. In the case of loyalty cards we are seeing movement in both directions — some retailers outsourcing to save costs, while conversely Tesco has taken a stake in its key supplier Dunn Humby.

Handing the customer on

'Productive channel usage', a key variable driving market share, needs some explanation. With an essentially stand-alone channel such as a traditional direct sales force, we can measure how well the channel contributes to market share by monitoring its rate of conversion of leads to customers, and hence its cost of acquisition. But if the role of the channel is to take the customer on to the next step in the buying cycle and hand them over to a different channel for the purchase itself, we need to monitor more specifically the conversion efficiency and the cost of moving the customer along that specific step. So the whole buying cycle might involve several efficiency ratios and corresponding costs. This is such a major issue that it will be dealt with it in more detail in a later paper.

Steering by the stars

So far this paper has focused on metrics to drive the business and measure progress through a B2C example — and the same principles apply across other sectors, including B2B and not-for-profit organisations. The next stage is to look at the implications of these metrics for operations in other areas, such as those listed below.

— *Organisational structure.* If customers wish to buy from multiple

Danger of channel silos

channels, an organisational structure based around channel silos may encourage a counterproductive focus on single-channel metrics such as channel profitability rather than cross-channel metrics such as customer profitability. Development of cross-channel metrics can play a key role in wider organisational change. British Telecom conducted a successful pilot study within its corporate accounts division involving a switch from a 'pure-play' field sales force to an integrated model in which the field sales force worked closely with a new telesales channel of desk-based account management, as well as an enhanced website, all sharing customer information through a CRM system. The pilot found that sales expense as a proportion of revenue was reduced from 25 per cent to 17 per cent, and customer satisfaction was increased by 33 per cent — key metrics for engaging the wider organisation in the pilot's conclusions.⁵

- *Remuneration.* One of the authors, having problems on a website, phoned the company's call centre to ask for help, only to be told: 'I am not remunerated to help you to buy on the web. But if you call me straight back on this direct number I will be pleased to take your order on the phone.' It seems that the remuneration scheme in this company had not recognised the channel-hopping customer.
- *Management.* The same problem can occur at executive level. In the high-street chain discussed earlier, the director responsible for the website was initially judged and rewarded on the website's sales alone. It took the development of metrics showing how much more business he was generating for the stores than he was taking online for this remuneration system to be changed. Similarly, he argued for his store manager colleagues to be judged in part for business they generated for the website.

If future channel decisions are to be more rational than those we saw in the dot.com boom, the choice of metrics plays a crucial role. Most organisations have reasonably developed metrics for individual channels, but extending this metrics set to allow for today's channel-hopping customer requires some fundamental rethinking. It is essential, however, if we are to steer by the stars and not by the light of passing ships.

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