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Optimising multiple channels

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Abstract

Today's marketer is faced with a bewildering mix of IT-enabled channels to the customer — websites, e-hubs, call centres and so on — to complement traditional channels. Where once the route to market was a straightforward matter of standard industry practice — 'in our industry we sell via distributors' or 'we serve our customers via a direct sales force' — managers now find themselves competing as much on innovative channel strategies as on innovative products or services. This leads practitioners to ask unfamiliar strategic questions, such as how best to choose the right channel for the right job, how to fit them together so as to add value to the customer as well as optimise margins and, crucially, how to build the business case for the necessary change projects. This is the problem this paper aims to address. It presents a new synthesis of channel strategy tools — whether developed by others or invented by the authors to fill gaps in previous thinking — which have been found useful in consulting projects for IBM Business Consulting Services and Cranfield School of Management. It starts with a key point which adds some unavoidable complexity to the topic: the key strategic question is not which channel to use, but which channel combination, as generally the customer is best served through a judicious mixture of communication mechanisms.

Keywords: channel management, electronic commerce, marketing strategy, CRM

The need for multichannel integration

Once upon a time, banking meant going to a bank. Then ATMs, cashback and call centres appeared, but the branches didn't go away. Then the internet, mobile commerce and interactive TV were added to the several ways you could access your account, but the branches didn't go away. And while text messages telling you that you are about to go overdrawn might be useful, no one has yet suggested the pure-play text-messaging bank.

We live in a multichannel world, at work as at home. The business-to-business sales force is still struggling to work out its relationship with the call centre and the internet channel. And although Amazon's pure-play model flourishes for some product market segments, many others like Dell have found that a remote marketing model of mail order, the telephone and the internet still has to be supplemented by a sales force to build relationships with major accounts.

This channel profusion would not be possible, of course, without the technological developments which underpin it, from database marketing and computer-telephone integration to the internet and personalisation

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software. But change is also being driven by the changing customer. Longer working hours and travel times leave less time for shopping, making travel arrangements or insuring the car. In the decade to 1996, the number of hours spent in shopping malls by the average American dropped from seven hours a month to two-and-a-half.¹ And when purchasing at work, flatter organisational structures and consolidated buying functions put a similar emphasis on purchasing convenience. So we have a strong motivation for using remote channels to save time.

As the seller also stands to gain through the lower transaction costs of the call centre and, particularly, the internet, predictions abounded of the death of the sales force and the decline of the retail store. But these predictions have shown few signs of being fulfilled in the near future. While for some interactions, such as configuring a computer, impersonal but precise information on a website may be just what we are looking for, in other aspects of the relationship with the supplier we want the human touch. While as rational consumers we have explicit needs relating to product functionality, price or service, we cannot as emotional humans avoid our complementary needs for security, justice and self-esteem.² So when we have a complaint, or seek reassurance that the price we have been quoted is a fair one, a human has more chance of satisfying us than a computer.

So our customers use different channels for different purposes — but all in the same relationship, and indeed in the same purchase. But, as organisations, we do not seem to have noticed. Behaving as if channels are mutually exclusive alternatives to each other, we run them as silos, supported by their own management and IT infrastructure and judged in isolation by the level of orders placed through them or their total cost. While we may know the conversion rate of a website, we are unlikely to be able to measure its contribution to offline sales, or the proportion of its leads that originate from the sales force.

To be fair, many if not most companies have instituted projects to reduce this silo mentality, from the complex IT integration projects which provide a single customer view to metrics and reward systems based on customers rather than channels. The potential benefits they seek, and some report, include the following.

- *Transaction costs.* Given a pure-play choice between, say, an internet channel and a call centre, the customer may choose the latter. But if multiple channels can be used in the same relationship, the customer may be very happy to use the internet to look up product specification information or a database of common service problems — particularly if they know that personal assistance can be gained while they are online if it is required, a facility as yet provided by only 2 per cent of call centres.³ As well as such transaction cost savings, there can also be other cost advantages of integration, such as removal of duplicated tasks.
- *Service enhancement.* Customers expect that an organisation's left hand will know what the right hand is doing: otherwise, how can it be trusted with their business? So if a salesperson's first topic in a

Security, justice,
self-esteem

Channel silo
mentality

meeting is dealing with a complaint the customer made to the call centre yesterday, he or she may not pledge their undying loyalty, but at least it gives them one less reason to leave.

- *Personalisation*. If the supplier goes the extra step of using integrated customer data to tailor products, services or the sales process, customers may perceive genuine added value.
- *Data analysis*. Organisations have little chance of understanding the customer in the absence of an integrated view. A vital input into most decisions on how to treat the customer is their value to the organisation. An integrated view across channels and products can enable estimates of the customer's current profitability — sometimes with the conclusion that as few as 10 per cent of customers generate over 100 per cent of profits.⁴ This analysis can inform decisions on how hard to work to keep the customer. Other analyses enabled by an integrated view include segment membership, propensity to defect and propensity to purchase a product not currently held.⁵

There is, then, no shortage of potential benefits from optimising multichannel performance. But moving beyond plausible argument to a sound business case is not easy. The difficulties divide broadly into three areas.

The business case

- *The case for change*. Anticipated benefits generally depend on customers perceiving additional value and therefore giving us more business. And even projects based primarily around reducing cost need to check that customers will not see the changes as giving them a less good deal. But as the history of the dot.com boom shows, it is easy to gloss over this in the business case with market share or retention estimates that prove wildly wrong. While customer behaviour can never be predicted with certainty, some kind of rational basis is needed for judging what benefits will be perceived by the customer base.
- *The case for priority*. The range of potential projects at the customer interface is generally wide — just a few examples being adding personalisation to the web channel, rationalising the call centres and segmenting the customer base through CRM analytics — and a strong case can be made for many of them. But with limited resources and equally pressurised management time, projects need to be carefully prioritised. And this prioritisation needs to take into account not just the benefits, but also risk factors such as the technological difficulty and the extent of organisational change required.
- *The case for investment*. If a project is selected as high priority in principle, there is still a need to build a sound financial case. Even assuming customers like a new channel initiative, organisations can end up with poor financial impact due to the cost of service, cannibalisation or a host of other issues. There is no short-cut to building a financial model of the current channels and using this to predict the impact of a new project.

Practitioners, then, find themselves asking unfamiliar strategic questions,

Unfamiliar questions

such as how best to choose the right channel for the right job, and how to fit them together so as to add value to the customer as well as optimise margins. In this quest, one might expect there to be a ready supply of off-the-shelf marketing theory for them to turn to. But while the typical marketing textbook may contain chapters on managing individual channels such as the service centre or the retail chain, practitioners look in vain for a chapter explaining in simple, practical terms how to design the right channel mix in the first place.

This is the problem this paper aims to address, presenting the outline of a methodology for a review of multichannel strategy. It draws on traditional channel theory, such as the standard work by Stern *et al.*,⁶ complemented by some relevant thinking which has emerged as a result of the e-commerce revolution, to provide a new synthesis which aims to be both rigorous and practical. In doing so the authors found it necessary to propose some new frameworks to fill gaps in this previous thinking, which are grounded in their consulting experience. In this complex area in which details differ considerably from one organisation to another, the frameworks may need adapting to individual circumstances, but the broad logic of the approach appears to hold firm across a range of settings. The process is summarised in Figure 1.

The case for change

The discussion will start with the case for change. First, the present needs to be understood: how customers currently use the various channels on offer. Figures 2 and 3 provide simple ways of summarising this.

From 'how' to 'why'

Then it is necessary to look behind this 'how' question at the 'why': why customers are making their current choices of one channel rather than another. This is an essential step if organisations are to offer them a better proposition and thereby modify customer behaviour in the future,

Figure 1: A process for optimising multichannel performance

		Purchase phase				
		<i>Initiate dialogue</i>	<i>Exchange information</i>	<i>Negotiate and tailor</i>	<i>Commit</i>	<i>Exchange value</i>
Channel/medium	<i>Face to face</i>		5% 5%	10% 10%		95% 90%
	<i>Mail</i>	85% 60%	60% 40%	20% 10%	20% 10%	
	<i>Phone</i>	5% 5%	10% 10%	40% 20%	80% 70%	
	<i>Web</i>	5% 15%	20% 40%	0% 25%	0% 20%	5% 10%
	<i>E-mail</i>	5% 20%	5% 10%	30% 35%		

Figure 2: Channel phase table — A business school (illustrative figures only)

Note: % of current business using the medium to perform that task in the sales cycle are shown in bold. Future targets are shown in italics

and is covered by the channel curve. The channel curve (Figure 4) allows a future proposition — say, a new channel or channel combination — to be compared against the customers' underlying buying criteria, so the organisation can check in advance that it is likely to be welcomed.

Finally, scenario testing is examined, which helps to flesh out a future proposition and ensure that the customer experience is well thought through.

How customers are using channels: Channel phase table

A table of channels against phases of the purchase process, as illustrated in Figure 2, provides a simple starting point. The proportion of each phase — such as the purchase itself — that is conducted using each channel is estimated as a percentage. For example, this hypothetical business school (loosely based on Cranfield School of Management, with illustrative figures) has estimated that 85 per cent of the time customers first get the idea of going on a short course for managers from a mailing. Although exact figures may be available on which channels are used to place the order itself, filling in the other columns will generally require making some estimates.

Next, some proposed figures can be added (in italics in the figure). While not set in stone at this stage, these can be used to explore initial ideas on optimising the mix of channels, in order to save costs, give more value or both. Where a lower-cost channel can be used to perform a task at no disadvantage to the customer, for example, its percentage can be increased. In the case of the business school, some of the proposed changes are as follows.

Lower-cost channels

— *Initiate dialogue.* Mailing course brochures is an expensive and imprecise way of telling the business school's existing customers about courses they might be interested in. Its limited experience so

Figure 3: Channel coverage diagram — UK telecommunications company

far suggests that many customers would be just as happy to be sent carefully tailored e-mails, and just as responsive. Recommender facilities on the website might prove an even better way to steer the customer in the direction of the courses they need.

- *Negotiate/tailor.* For tailored courses run for particular companies, an element of face-to-face discussion is likely to continue to be desirable. But it may help the customer to feel in control of the negotiation if they can experimentally assemble a possible course from standardised modules using a configuration facility on the website.
- *Exchange value.* The means by which the course is delivered can also be reviewed. There is scope for efficient distance learning of standard components of theory such as accounting basics, but the business school envisages that most of the course delivery will continue to be face to face, where the scope for teamwork, networking and a rich discussion of practical issues is greatest.

Another view of channel use: Channel coverage analysis

To complement the channel phase analysis, the authors have often found it useful to draw a channel coverage diagram, as shown in Figure 3,⁷ which illustrates a major UK telecoms company. This summarises how different channels are used by different customer groups and for different parts of the product range. The model provides a valuable internal perspective on channel use.

Figure 3 shows that there is an extremely heavy use of the sales force channel in this company. Sales forces are almost always the most expensive channel to operate, and so broad use across all customer segments and product lines, regardless of whether this is necessary, is a major cost concern. Moreover, although the web and dealership channels

are sensibly positioned on the diagram, they are in an immature state. The size of their boxes reflects the proportion of business coming through this channel, so for example only about 10 per cent of simple products purchased by small businesses are bought over the web. The telephone channel is also underused: its success with simple products for small businesses could be extended upwards on the diagram to medium businesses, as well as rightwards to medium-complexity products. It is clear that further work is required to understand why the expensive sales force is being so heavily used across all customer segments and products.

In this example, the products are split according to product complexity, but in other cases the division might be by major product/service lines. Similarly, the definition of customer groups will vary in different cases: here it is based on company size, but in other cases it might be based on a needs-based customer segmentation. The aim is to choose the main ways in which channel use varies.

Once a 'present state' analysis is complete, a desired 'future state' can then be mapped to quantify the likely magnitude of change required in the new channel mix. Crucially, supported by the correct numbers, this model serves to form a key input into the investment case. This will be discussed later.

Understanding and modifying customer behaviour: The channel curve

Suppose organisations decide, on the basis of these analyses, that they would like more customers to use a call centre or web channel in order to lower transaction costs. Clearly they have to look at this issue from the customers' point of view: what is driving their current behaviour, and what would entice them to change? The channel curve⁸ analyses this, comparing how different channels rate at meeting the customers' buying criteria. It is illustrated in Figure 4 for the books market.

Enticing the customer

Figure 4: The channel curve

Note: A separate analysis may need to be done for each major segment.

Right channel for the job

First, the main buying factors are listed along the bottom of the chart, with weights indicating their relative importance to the customer's buying decision out of 100. These represent the key factors taken into account by the customer in deciding where to place their business — here, the cost of purchase (including mailing costs where appropriate); convenience, or the total time taken for the purchase; the ability to browse for the book they want; and so on.

The ability of each channel to deliver against each factor is then assessed judgmentally on a 1–10 basis: the higher the score, the better this channel meets this buying factor.

It can be seen that taking all the factors together, the internet and physical stores have the best matches to the needs of this particular hypothetical segment of the book market. In reality, different segments will be best matched to different channels, which would show up clearly if the channel curve was drawn for each segment's buying criteria, which by definition are different from each other. Hence, this chart may need drawing up for each major segment.

If the channel phase table suggested that a particular phase of the purchasing process needs particular attention, the analysis can be focused on that phase. In this case, the factors listed are those specific to that phase, which determine which channel a customer would prefer to use for that phase of the relationship.

This example compares the inherent qualities of different channels, rather than specific competitors. But if a particular channel is emerging as a candidate for improvement, it can be useful to benchmark the organisation's current offering through the channel against one or two major competitors by adding a line for each competitor to the channel curve.

Creating the future

All this can be used to define a future proposition on the channel curve. This may simply be a question of adding a channel to the mix, or extending its capabilities to handle a wider part of the customer interaction. But more often it will involve improvements to an existing channel offer. So two lines will be needed in this case for the channel in question, one for the current situation and one for the envisaged future one.

Where will the data come from to fill in the channel curve? Data warehouses, however sophisticated, rarely have this kind of information on customer needs. Broadly, there are two approaches.

- *Market research.* This does not necessarily have to be formal: in B2B contexts, it can be just as effective to assemble a small team of customers, or customer representatives such as distributors or recently retired purchasing managers, and run a workshop focused around filling in the channel curve from their perception.
- *Workshops.* Failing that, an internal workshop with a small group of those close to customers, drawn from multiple business functions, can typically make a fairly good estimate of customer needs. In this case, a reality check of the results can be made by comparing the resulting channel curve with the percentages in the channel phase table. If the

channel curve suggests, say, that the call centre is ideal for placing orders, but very few customers are using it, then the organisation has clearly got its data wrong.

Bring the channel proposition to life: Scenario testing

The channel curve provides a basis for working out a proposition which will broadly have appeal to the target market. In order to flesh this proposition out, though, it is necessary to do more than just define the right combination of product, service and channel. The organisation also needs to consider how the proposition will manifest itself to customers as they make their various contacts with it.

One way to do this is to illustrate the future proposition with 'scenarios'⁹ — descriptions of how a typical customer from each major customer segment might go about performing some task in their relationship with the organisation.

In the example shown in Figure 5, a bank customer is considering the purchase of an additional product. On the left of the figure, the segment is brought to life by naming and describing a typical member of it. Then a table is drawn up, as shown on the right, describing a walkthrough of the interactions between this named customer and the bank as he conducts the purchase. The walkthrough teases out ways in which the channels need to interact and support each other in order to deliver the ideal experience.

Scenario testing, then, helps to round the picture of what changes are desirable in the channels we use and the way they interact. And taken with the channel curve, it can help to ensure that the organisation knows what it is in for when embarking on a new channel proposition.

Customer interaction walkthrough

Figure 5: Scenario testing

Indeed, by this stage there are probably many more potentially beneficial changes to our channel mix on the wish-list than the organisation can hope to implement at once. This raises the issue of prioritisation, which the paper turns to next.

The case for prioritisation

All sorts of exciting possible strategies may have emerged by this point. As a result of the previous steps, the organisation will have a list of possible channel innovations, and for each a summary of its attractiveness to customers via the channel curve. But as one always has a limited budget and limited management time, it is now necessary to prioritise between the options available.

Best use of resources

Although the channel curve summarises which approaches are likely to succeed in the market as a whole, an organisation will typically not have the resources to pursue all viable options — some of which may, in any case, deliver little value to shareholders, however welcomed by the market. It is this dimension of attractiveness to the organisation which has not yet been considered fully. The answer is to use a portfolio matrix which looks at both the attractiveness of an offering to the customer and its attractiveness to the organisation.

For this purpose, the authors suggest using the matrix in Figure 6.¹⁰

Developed by Dr Elizabeth Daniel at Cranfield and the authors, this matrix compares channel projects against two dimensions: attractiveness to the organisation and attractiveness to the customer. In many ways, it is just like the well-known directional policy matrix, which compares

Figure 6: Prioritising channel projects

Comparing rival strategies

market attractiveness against business strengths. But in assessing the horizontal axis — attractiveness to the customer — not rival competitors but rival channel strategies are compared. So if, say, an organisation is considering selling via a web/call centre combination rather than a direct sales force, how would this channel strategy compare in the customer's eyes with their current way of doing business?

Much of the work to fill in this matrix has already been done. Various channel strategies have been compared against customer needs using the channel curve. So the horizontal axis simply corresponds to the position of the proposed route to market on the channel curve compared with the best alternative. A better curve than the alternatives will correspond to a position well to the right of the matrix. To be precise, the position on the horizontal axis can be determined mathematically using the channel curve data by comparing the weighted average score of the proposed channel with the best of the alternative channels. (If the organisation is improving its channel offering through an existing channel, the comparison is with the curve for its current offering.)

Return and risk

The vertical axis uses a similar multi-factor calculation. The figure shows some typical factors which reflect both the potential return and risk factors such as the degree of technical and organisational difficulty, but these will need to be reviewed carefully for each organisation to reflect its priorities. The scores can be made, as with the channel curve, on a judgmental 1–10 basis. Clearly this is not an exact process, but it provides a practical way of reducing the list of potential projects to a few which require the drawing up of a full investment case, the topic of the next section.

An example of the application of the matrix is shown in Figure 7,¹¹ for an insurance company examining its distribution policy in a particular European country.

The company drew the following conclusions about the four sample projects labelled in the figure.

- A *distributor extranet* was a potential project to provide web access to the financial advisers who distributed its products, as an alternative to the call centre and account managers currently available to them. A clear win-win for the highly technical advisers, this was implemented as soon as possible, along with some of the other projects in the top right, starting with those closest to the top right corner.
- Another easy decision was on '*sell direct*' in the bottom left quadrant, which the company decided not to proceed with. This was actually scored so low on customer attractiveness that it was off the left-hand edge of the scale. The internal team doing the scoring believed that the few customers who were prepared to buy long-term savings products without any form of advice would probably prefer to use a fund supermarket to compare different offerings. Its low margins and channel conflict issues gave it a low score on the 'attractiveness to the company' axis too.
- *Distributor portal*. A new web-based intermediary between the insurance company and its financial advisers was likely to reduce

Figure 7: Prioritisation matrix — insurance company

prices, and forming such a portal was also outside the organisation's current skill-set, so this scored somewhat low on 'attractiveness to the company'. But because it was attractive to customers, the company decided it would happen anyway in due course, so it decided to partner with another company offering this service.

- *Consumer portal*. The company felt it possible that one-stop shops to buy savings products by telephone and internet might become more attractive to consumers, as, say, car insurance has changed. The company took a watching brief, to see whether customer views would move this to the left over time.

Structuring board debate

Using this tool provides a welcome structure to the board's decision-making debate and rapidly sorts out which projects are the top priorities. It also forces the proponents of a project to ask the right questions early on, increasing the quality of proposals put to the board. But it does not remove the need for a detailed financial investment case for projects which seem, on this judgmental basis, to be candidates for the go-ahead.

The case for investment

For prioritised projects, there is next a need to develop a detailed investment case. As well as refining the project's position on the prioritisation matrix, this enables the project's return on investment (or net present value, according to the preferences of the company) to be assessed for funding purposes.

The means of doing this will vary according to the nature of the project and the company's conventions, but generally some kind of cost/revenue model will need to be built for the company's marketing and distribution

Working towards CLV

channels, incorporating revenues and costs for each channel as well as costs which are not channel-specific.

By modelling future years as well as the current year, the impact of the project on costs as well as revenues can then be estimated. Anticipated revenues, particularly, will still need management judgment, but at least the channel curve means there is some kind of rational basis for making this estimate. If a large increase in market share is anticipated, for example, this should be backed up by a significant improvement on the channel curve.

One thorough approach to building such a cost/revenue model is to use customer lifetime value (CLV),¹² assessing the impact of a project on the sum of the CLV across all customers. A CLV approach is worth working towards. But for most organisations today this is simply not possible, as they do not have appropriate data. Most struggle even to understand current profitability by customer or by channel.

So a simpler model of costs and revenues will generally need to be constructed and used to assess the impact of a project. The model can concentrate on those parts of the overall picture which are most likely to be impacted by a proposed project. Is it tackling fixed costs, acquisition costs, ongoing transaction costs or retention costs? Are its revenue objectives based on improving post-sales service and thereby retention rates, or improving conversion rates and thereby market share?

To start, a baseline needs to be created of the current costs and revenues across the chosen channels. While measures will vary according to the company and channels under review, some typical measures are listed in Figure 8.

Once a baseline has been captured, it is then time to consider the likely programme costs. Here it is important to consider all aspects of the proposed project(s) identified in the prioritisation matrix. Typically these should include any external costs to outside vendors and internal costs. It is important to document assumptions made in making these estimates of both the set-up and the ongoing costs.

Finally, total programme benefits should be measured in terms of cost reduction and/or revenue enhancement. Here the specific measures will depend on the company, business unit and channel(s). It is often advisable to design multiple scenarios for the programme benefits, however, thus helping to mitigate risk and assess the likelihood of an attractive break-even and return on investment (ROI).

FMCG company goes multichannel

An example of a successful multichannel programme investment case is provided by a large fast-moving consumer goods (FMCG) company. It was suffering from a downturn in profitability despite owning an excellent range of household brands. Closer inspection of its existing channel operations showed that an expensive sales force was being employed across all customers, from the corner shop to the national supermarket chain. This cost drain was compounded by a reliance on lengthy paper order forms that needed to be retyped, resulting in errors, delays and process inefficiencies.

The sales force was supported by a call centre operation. The call centre staff's main functions were to take 'ad hoc' customer orders and

Figure 8: Financial impact of channel strategies

Exploiting the call centre

deal with the wholesalers; fielding after-sales service enquiries originating from sales force relationships was secondary. Moreover, the call centre operation was not using a system integrated to back-end systems. This made it impossible to deal with real-time customer enquires about their orders.

For this company, therefore, the cost of maintaining the channel infrastructure was extremely high in relation to best practice in the industry. Furthermore, it seemed a fair guess that the poor non-integrated customer experience across multiple channels was losing the company revenue.

A total multichannel programme was therefore initiated, split into three work-streams.

- *Deploy a field force effectiveness solution.* First, the sales force was cut back and refocused on the most profitable accounts. Their effectiveness was improved by e-enabling the sales force with wireless field sales devices that would allow them to enter orders, easily prioritise their accounts and give real-time ‘added-value’ information to customers.
- *Build and deploy an extranet.* All customers were given access to an extranet making available the full range of products, product information and order history. This enabled customers to order when they wanted and get direct access to valuable point-of-sale information and of course product details. This also applied to the

wholesalers. In turn the company was able to cut costs dramatically from the sales force and back-end administration support.

- *Streamline and refocus the call centre.* In the old model, the call centre was generally reactive and essentially supported the administration of order entry. The call centre applications were replaced so that they could integrate fully with the other channels and back-end systems. Moreover, the development of the extranet helped the call centre not only to support the two primary channels to market, the direct sales force and extranet, but also to contribute proactively to the 'identification', 'qualification' and 'sell' stages of the sales cycle.

Costs down 40 per cent

The investment case was very attractive. Restructuring and process redesign meant that operational costs were slashed by 40 per cent across the channel mix, while revenue increased by 11 per cent. The revenue increase could be directly attributed to better segmentation and targeting, and more effective use of the direct sales force and call centre.

Dangers of spurious precision

It is instructive that the original sign-off for the investment case, though, was based on a simple break-even analysis. Often there is a temptation to 'boil the ocean' with immense detail and pages of assumptions. But there are dangers in making the business case too complicated, with too much detailed analysis founded on numbers which, inevitably, are mere estimates. The appearance of precision can lead to these numbers being treated with excessive reverence, and can obscure the main argument. In the authors' experience, it is better to keep a relatively simple modular approach to multichannel projects and ensure that large projects are split into separate phases or work-streams, each with their own manageable investment cases.

Conclusions

Different stages, different channels

Much was made in the dot.com boom of the lower transaction costs which could be gained online. We were told that airline tickets cost \$10 to sell through travel agents versus \$5 via call centres and \$1 via the web, with similar figures being widely quoted for the cost of bank transactions and share brokering. While all of this is true and potentially invaluable, the transaction costs are only one of the issues to be considered. Often, the cost-effectiveness of acquisition and retention runs in the opposite direction, with higher costs online. Many a start-up during the dot.com boom ignored at its peril statistics that the average online retailer was spending £66 to acquire a customer, against £13 offline.¹³ They also discovered that the scant attention to customer service that left 25 per cent of e-mail queries entirely unanswered, and only 21 per cent answered within two days, was having a high cost in low retention rates.¹⁴

This is one reason why we are increasingly seeing multichannel strategies which use different channels for different aspects of the relationship, such as acquiring the customer, for example, through the sales force and providing service through the web and call centres, but with personal visits to handle complaints and ensure that the relationship is not damaged.

Competing on channels

But there remains much scope for fine-tuning the emerging multichannel strategies. While product innovation continues apace, the authors believe that the dominant theme of the next ten years will be innovation in the route to market — the channels by which the customer is communicated with and the product delivered. Direct Line, First Direct, Dell, eBay and Amazon all compete by exploiting IT-enabled remote channels to add value, reduce costs or both. While the channel revolution in financial services, retailing and IT is far from over, in many other industries it has hardly begun.

As always, though, the devil is in the detail. Developing a successful channel strategy is far from easy, and the frameworks discussed here are offered as ideas to consider rather than universal prescriptions. But equally, project implementation on complex initiatives at the customer interface presents numerous difficulties, among them the challenge of large CRM system developments,¹⁵ the hazards of changing corporate culture¹⁶ and the puzzle of determining the right organisational structure for a multichannel proposition.¹⁷

The tide of change

But two things are clear. First, you cannot hold back the tide of change. If a new channel proposition — whether revolutionary or evolutionary — is in the customers' interests, then it will happen sooner or later. And when it does, organisations need to be ready: there is mixed evidence on whether first-mover advantage beats being a very early follower, but it certainly does not pay to be much later.¹⁸

Secondly, when defining and implementing our channel strategy, organisations need to keep an unremitting focus on satisfying customers, or they risk creating economic terrorists who will advertise their failings to all who will listen. Such techniques as the channel curve do not guarantee that this will be achieved, but at least they will help organisations to ask the right questions.

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