



Multi-Channel Retailing

By Hanna Schramm-Klein, Dr., Institute for Commerce & International Marketing, Saarland University, Germany

Web: www.hima.uni-saarland.de

Email: h.schramm@mx.uni-saarland.de

Hanna Schramm-Klein is Assistant Professor of Marketing at the Institute for Commerce & International Marketing. Her research areas are retail marketing and retail strategies, E-Commerce, retailer-supplier-relationships and supply-chain management.

By Dirk Morschett, Dr., Institute for Commerce & International Marketing, Saarland University, Germany

Web: www.hima.uni-saarland.de

Email: d.morschett@mx.uni-saarland.de

Dirk Morschett is Assistant Professor of Management at the Institute for Commerce & International Marketing. His research areas are retailing strategies, E-Commerce, retailer-supplier-relationships and international management.

Abstract

Multi-channel retailing entails the parallel use by retailing enterprises of several sales channels. The results of an online buyer survey which has been conducted to investigate the impact of multi-channel retailing (i.e. the use of several retail channels by one retail company) on consumer behaviour show that the frequently expressed concern that the application of multi-channel systems in retailing would be associated with cannibalization effects, has proven unfounded. Indeed, the appropriate degree of similarity, consistency, integration and agreement achieves the exact opposite. Different channels create different advantages for consumers. Therefore the total benefit an enterprise which has a multi-channel system can offer to its consumers is larger, the greater the number of available channels. The use of multi-channel systems is associated with additional purchases in the different channels. Such systems are thus superior to those offering only one sales channel to their customers. Furthermore, multi-channel systems with integrated channels are superior to those in which the channels are essentially autonomous and independent of one another. In integrated systems, consumers can achieve synergy effects in the use of sales-channel systems. Accordingly, when appropriately formulated, multi-channel systems in retailing impact positively on consumers. They use the channels more frequently, buy more from them and there is a positive customer-loyalty impact. Multi-channel systems are strategic options for achieving customer loyalty, exploiting customer potential and for winning new customers. They are thus well suited for approaching differing and varied target groups.

Introduction

In both theory and practice, it is currently often assumed and discussed, that the application of multi-channel systems is advantageous (Gupta, Su and Walter 2004; Schramm-Klein 2003). In this context, multi-channel retailing is, despite the current intensive debate, not really a new phenomenon. For quite some time, enterprises in food retailing have already been applying several store formats of business concurrently (for example Metro, Ahold and Carrefour). In the non-food area as well, for several decades, store formats of business have been combined with catalogue-based mail order retailing (e.g. Sears). Consequently, the term multi-channel retailing is essentially a new name for an old topic. However, a new topicality and relevance of the subject has resulted primarily from the establishment of the internet as a sales channel, which creates both new challengers and potential for retailing. The most important developments in this context are, according to Alba et al. (1997) and Porter (2001):

1. Establishing new actors: "pure-play-retailers" such as Amazon, exert an important impact on online mail order retailing in the B2C trade.
2. Disintermediation: this refers to the use of the internet by manufacturing enterprises as a direct distribution channel (for example Apple or Nike).
3. Intermediation: the internet leads to the formation of new stages in the retailing process. Furthermore, additional intermediaries such as search engines or portals for financial intermediaries emerge and perform new functions.

The increasing significance of the internet has led not only to the technological extension and expansion of supply and ordering possibilities within classic mail order and to the emergence of new suppliers (internet retailers or online retailers like Amazon.com). In addition, the subject of multi-channel retailing has acquired a new level of topicality and increasing significance. The internet and other media such as mobile telephones, interactive television etc. can be applied to retail selling or have considerable relevance for the future as "virtual selling methods". These new or future distribution channels have the potential to create new or changed needs among consumers through their experience with the new forms of retailing ("variety seeking") as a result of the convenience, spatial and temporal (no opening and closing times) interdependence or as a result of individualisation through one-to-one communication or approaches which supplement traditional retailing channels (Mathwick, Malhotra and Rigdon 2001). This perspective forms the focus of the following discussion.

Based on the particular significance of the internet as a new sales channel, this paper focuses on specific forms of multi-channel systems in retailing, with respect to which the internet constitutes one of the distribution channels.

The Concept of Multi-Channel Retailing

Multi-channel retailing entails the parallel use by retailing enterprises of several sales channels. For example, Land's End is one of a number of retailers which sell through their own stationary outlets as well as catalogues and the internet. For this particular form of retailer, there is a substantial interconnection and overlap between the ranges of goods offered through the different sales channels. Accordingly, through the different channels, the requirements both of similar and different target groups and the needs of diverse customer requirements can be satisfied (Schramm-Klein 2003).

If one applies the concept of multi-channel retailing to the major categories of sales channels - conventional shops or stores, printed catalogues and internet shops, the following are the most significant "manifestations" of multi-channel retailing (see table 1).

Table 1: Most significant types of multi-channel retailing

Type	Sales Channels
Clicks and Mortar	combination of internet shop with stationary outlets
Clicks and Sheets	combination of internet shop with traditional mail order
Clicks, Bricks and Sheets	combination of internet shop with stationary outlets and traditional mail order

Further innovative sales channels such as mobile telephones, PDA's or interactive TV can already be used in multi-channel retailing systems or may become significant and relevant in the future.

As an extension of sales channels for retail enterprises towards new and additional forms of business and distribution, multi-channel retailing should be differentiated from the broader concept of industry diversification which also covers the use of retail formats with no assortment overlap. For example, this is the case if a specialist perfumery chain enters the textile sector.

The boundaries between sales channel diversification and product range extension are often unclear (Schramm-Klein 2003). A tendency towards an increasing convenience orientation on the part of consumers in conjunction with their eating habits leads to the increasing importance of home meal replacement, consumer catering and eating away from home. This, in turn, leads to losses in food retailing in this segment. One approach to increasing this "share of stomach" of retailing enterprises is to supplement food channels through offering a retail gastronomy including stand-alone units, takeaway food and specialised kiosk-like takeaways, so they participate in away-from-home consumption which occurs at the cost of conventional food shopping turnover.

Objectives of Multi-Channel Retailing

Overview

The most important objectives in multi-channel systems are customer loyalty, new customer acquisition and exploiting the full potential of customers. That is, the overall aim is to raise the "share of customer". Profiling with respect to the competition as well as increasing effectiveness and efficiency are additional objectives.

Acquiring New Customers and Developing Customer Loyalty

Different sales channels, varying customer segments and/or customer requirements, extending the spectrum of business forms or distribution types by an enterprise enables catering to additional market segments. In this connection, acquiring new customers and insuring the loyalty of existing ones are particularly important.

The application of multi-channel strategies to raise customer loyalty or to retain existing customers constitutes a reaction to changed buyer behavior. The rationale behind the increasing development of retailers into multi-channel operations lies particularly in changed customer behavior. These operate in an increasingly "multi-optional" manner. According to the specific situational and environmental conditions, there will be specific requirements on the part of consumers and on this basis, they will decide in favour of price-oriented, convenience-oriented, experience-oriented or utility-oriented purchasing outlets (East and Hammond 1996). This means that no single purchasing channel can fulfil all consumers requirements. They seek variety and their demands from retailers or retailing channels are not constant, so that they increasingly use a variety of different channels.

According to the particular situation, the different requirements of retail outlets take priority and it is necessary for retailing enterprises to take these into account. If they fail to do so, they risk losing customers to competing suppliers which are able to satisfy their needs appropriately. By using a multiple distribution-channel system which contains alternative retailing outlets, it is possible to cater for the various different purchaser needs, the differing requirements of consumers. Accordingly, the aim of the retailer is to maximise the "share of customer" or "share of wallet" (Duffy 1998).

In this manner, the development of multi-channel systems in retailing constitutes a "holistic concept". The aim is to extend the "retail system" of an enterprise in such a manner that customer needs and requirements can be fulfilled whatever channel the customer selects. The point is that the retailer itself offers consumers alternative purchasing channels so that they do not migrate to the competition.

The acquisition of new customers through alternative sales channels proceeds through the integration in the distribution system of an enterprise, additional sales or distribution forms which cater for differing customer segments. Accordingly, in this context, new customers can be attracted which were not catered for at all through the previous distribution channels (Mols 2001).

Profiling

Profiling against the competition or improving the enterprise's image, including the application of new selling formats, assumes a significant position within the goal hierarchy, since retail branding becomes even more important (Morschett 2002). Thus, the internet is regarded as a means of differentiation and

simultaneously of creating the image of a modern, open-minded enterprise (Viswanath and Mulvin 2001).

To some extent, the competitive strategy "stalemate" which plagues classic sales programmes in terms of locations, product assortments, prices and so on, can, at least for a while, be overcome and the enterprise may acquire a degree of uniqueness.

Increasing Effectiveness and Efficiency

The implementation of a multiple sales-channel system can also serve to balance out risk. Through creating a sales-channel portfolio, the independence of certain customer groups, which may occur with a concentration on specific segments only, can be overcome. Furthermore, this can reduce the dependence on certain distribution systems or on a particular infrastructure or technology.

Synergy effects constitute yet another important goal dimension. The drive for synergy effects includes the objectives of increasing efficiency and thus profitability. One way of achieving this is through the integration of back-end processes for the various forms of business and distribution used by retailing organisations. For instance, synergy effects can be achieved through a common use of resources and infrastructure, as well as in the context of purchasing, storage, logistics and information-technology support.

The market-oriented synergy effects of a parallel presence in both the real and virtual retailing worlds, that is, operating "offline" as well as "online", are labelled as cross-selling effects and are distinct from the synergy effects in the infrastructure or resource areas. They result in equal measure from potential efficiency and effectiveness criteria (Barua et al. 2001). The various sales channels which a retailing enterprise offers to consumers can be supplemented by a consistent and reciprocal approach which induces cross-selling effects. Accordingly, for example, a combination of classic retailing (e.g. traditional outlets or catalog retailing) with internet shopping can enable buyers to first inform themselves through the online channel and only then conduct the actual purchase at the "real" outlet - or vice versa. In addition, the online-channel can be used for promoting and advertising the classic retailing or, once again, vice versa. Beyond these different channels therefore, such an integrated multi-channel concept can apply interrelated marketing activities for campaigns, promotional activities and customer-loyalty measures (Nicholson, Clarke and Blakemore 2002).

Customer Behavior in the Multi-Channel Environment

Behavioral Tendencies

The subject of multi-channel retailing is characterized by the fundamental issue of whether the customers of such systems use them more and buy more through them, than would be the case in a single-channel system. In order to answer this question, it is necessary to analyze customer behavior in the multi-channel context. Therefore, the impact of multi-channel systems on psychological processes in the minds of buyers and the consequent behavior were investigated. The analysis was conducted on the basis of an online buyer survey. For the primary data-collection phase, the behavior of 2,034 individuals in the context of multi-channel systems, was investigated (see Schramm-Klein 2003 and Schramm-Klein and Morschett 2005 for details).

The results demonstrated that multi-channel systems induce the following behavior. The specific characteristics of alternative channels generate various advantages and disadvantages which can be aggregated in multi-channel retailing systems. The high level of empirical significance of multi-channel retailing is closely associated with the buying behavior of consumers. Here, the major advantage of multi-channel systems becomes evident compared to single-channel systems. With the appropriate formulation, the channels within the system do not cannibalize each other. In fact, customers of multi-channel systems buy more from the retail system as a whole. Multi-channel systems thus constitute a strategy that enterprises can use to increase their market share. The application of such systems are associated with additional purchases in all channels. With respect to purchasing behavior, "cross-channel behavior", the parallel use of several purchasing channels, is revealed as highly relevant.

Impact Interrelationships in Multi-Channel Systems

In analyzing the impact of multi-channel systems of customer behavior, twelve principles were derived as a basis for the formulation of multi-channel retailing systems so as to ensure their positive impact as manifested, for example, in repurchasing or loyalty. For a comprehensive analysis and discussion of these twelve principles, see Schramm-Klein (2003).

Principle 1: The overall evaluation of the channels in a multi-channel system is more positive, the more channels are integrated in the system.

This means that not only should retailers attempt to establish as comprehensive a distribution channel system as possible, but that particularly those enterprises which currently have only single-channel systems, should successively introduce additional channels into their portfolios. This will impact positively on consumer perceptions of the system.

Principle 2: Consumers evaluate the channels within a multi-channel system more positively, the more similarity they recognize between the channels.

Similarities should be emphasized in all areas of the marketing mix, particularly in communication and the formulation of channels. This does not mean that channels should be equipped identically, but rather that the overall arsenal of marketing-mix instruments should be characterized by a clearly common "framework". Within this framework, channel-specific variations are advisable in order, for example, to stress the value of each particular channel.

Principle 3: Consumer confidence in the overall system is higher, the more channels that are combined within it.

Through the combination of several sales channels, consumers are offered a variety of possible contacts or "experiences" with the enterprise. Each channel has both its specific risks and confidence-inspiring characteristics. If a number of channels are combined bearing this in mind, overall confidence in the multi-channel system can be increased.

Principle 4: Combining internet shops with conventional shops promotes consumer confidence in the appropriateness of the product range of internet shop. Combining internet shops with catalogs promotes consumer confidence in the service competence of the internet shop.

In addition to the effect of this principle communication measures can positively influence the confidence dimensions that are not yet sufficiently developed.

Principle 5: Consumer confidence in a multi-channel system is higher, the more similarities consumers detect in the formulation of the marketing-mix instruments between the sales channels.

Consumers associate similarities in the retailing marketing mix instruments between the channels with consistency and reliability. This allow for an easier orientation, because familiar elements can be identified in additional sales channels. Similarities promote confidence in the system as a whole.

Principle 6: The more familiar consumers are with other channels in the system, the more trust they have in the focal channel. There is a transfer of confidence between the channels.

The formulation of the range of retailing marketing mix instruments for the channels of the individual enterprises must be done in such a manner as to ensure that consumers have as much positive contact as possible with the enterprise. Contact and experiences not only establish trust in the channels used or visited, but also in the total system. This can be promoted and supported through communication measures.

Principle 7: The attitude of consumers towards the system as a whole is more positive, the more channels that are combined into the multi-channel system.

The more sales channels that are combined in the multi-channel system, the more benefits offered to consumers, because different sales channels have different characteristics. Therefore, consumers perceive a broader benefit and utility spectrum as a result of the greater number of sales channels. Through the extension of the sales channels, enterprises can thus achieve positive attitudinal effects in

the minds of consumers through observing the additional formulation principles.

Principle 8: The attitude of consumers to a multi-channel system is more positive, the more integrated they perceive the information and goods-transfer processes between the channels.

This indicates that the integration of channels (i.e. the possibility of buying products in one channel and returning them in another channel) is of particular significance. The integration of several channels results in advantages for the retailing enterprise. Such an orientation has proven to be superior to one which is oriented around the separation of sales channels.

Principle 9: The more positive the evaluation of the multi-channel system, the more positive the attitude and confidence of consumers in the multi-channel system.

It is evident that not only the emphasis on similarities or integration between the sales channels leads to positive impacts on attitude and confidence. The formulation of the individual channels as well, such as their interaction, impact positively on attitude and confidence.

Principle 10: The more positive the attitudes of consumers and the more confidence they have in the multi-channel system, the more loyal they are to it.

It is therefore important to ensure that the advantages offered to consumers through the multi-channel system are not only oriented towards encouraging purchases in the short run. The objective should be to develop positive attitudes and confidence over the longer term. This will then prevent only short-term purchases.

Principle 11: The use of multi-channel systems by consumers is more intensive, the more positive their attitude and the greater their confidence in the multi-channel system.

The formulation of a multi-channel system in conformity with these principles leads to a positive development of the use of the multi-channel system. In this context, not only purchasing through the sales channels, but also the frequency of visits is relevant.

Principle 12: If appropriately formulated, the channels in the system do not cannibalize each other. On the contrary, there is a net gain in consumer usage.

If the implementation of the multi-channel system proceeds according to the above principles, this empirical test shows that there is no cannibalization. Multi-channel systems are thus an appropriate strategy for retailers to use in order to increase their market shares. The net additional use of such systems means that multi-channel strategies yield gains in market share to the detriment and cost of the competition.

Operative Professionalism as a Condition for the Success of Multi-Channel Systems

While the above observations apply primarily to sales-oriented impacts and their interrelationships, the availability of appropriate infrastructures and know-how in terms of efficient administration and online logistics, are also important conditions for the successful development of multi-channel systems.

The establishment of specific ordering systems and processes (e.g. online orders, orders through call centers) as well as specific invoicing and payment systems and processes (e.g. open accounts, payment on delivery, payment by credit card or customer card) are also necessary. These are not necessarily available to traditional offline-dealers. Logistical "fulfilment" can be regarded as a yet greater barrier as it requires specific ordering and delivering systems (Shlesinger et al. 2001).

Thus, there is a tendency to establish separate ordering and distribution centres. If, for example, only a part of the stationary or other assortments is offered through the virtual channel, the introduction of a logistic service for storage and ordering may prove the most efficient alternative (outsourcing).

With respect to the distribution, there are several possible alternatives which can be combined - the use of outlets as pick-up stations (collection service) for internet shops, home or office delivery through

service firms (e.g. UPS or FedEx), establishing one's own delivery service (e.g. in the local or regional market area). With respect to distribution, there is a clear tendency towards outsourcing to logistics companies and this is also desirable from an ecological perspective.

The central significance of logistical fulfilment is also evident when one considers the failure of many pure internet retailers. A large number of "cyberspace enterprises" have relied only on good ideas, software and attractive internet sites for implementing their business model, without having solved the administrative, and in particular, logistical problems, in a sufficiently professional manner. The necessary business processes have not been implemented.

Summary and Conclusions

Different channels create different advantages for consumers. Accordingly, such channels offer, in varying measure, entertainment, interaction, information, access, security and so on. The greater the number of contact points, the more consumers can be reached and the more effectively consumer needs can be catered for. This means that the total benefit the enterprise can offer to its consumers is larger, the greater the number of available channels. It is important for the channels to be linked by means of internal agreement. Through the interaction and interconnection between customer-related functions and processes, a total system is established which provides consumers with positive reinforcement and synergy effects. In the context of applying such an integration strategy, it is advantageous to create a consistent image and appearance (particularly in terms of channel branding). Likewise, there should be consistency between the communication and marketing-mix instruments (Schramm-Klein 2003; Schramm-Klein and Morschett 2005).

The investigation of multi-channel systems has demonstrated that so far, the extent of integration has been low. Standardization mechanisms for ensuring channel consistency have only partly been applied. Consequently, enterprises have not succeeded particularly well in integrating consumers from one channel into others. In particular, it could be proven that a high level of channel integration is particularly important for consumer perceptions and channel usage. The achievement of the appropriate linkages is associated with high profiling potential as well as direct turnover and customer loyalty effects.

The frequently expressed concern that the application of multi-channel systems in retailing would be associated with cannibalization effects (Tang and Xing 2001), has proven unfounded. Indeed, the appropriate degree of similarity, consistency, integration and agreement achieves the exact opposite. The alternative channels reinforce themselves mutually with respect to customer use. Multi-channel systems are strategic options for achieving customer loyalty, exploiting customer potential and for winning new customers. They are thus well suited for approaching differing and varied target groups (Schramm-Klein 2003).

Subject to the conditions of positive attitudes and high customer confidence in the retailing enterprise and its sales channels, there will be no cannibalization. Indeed, a greater share of customer will be achieved. The use of multi-channel systems is associated with additional purchases in the different channels. Such systems are thus superior to those offering only one sales channel to their customers. Furthermore, multi-channel systems with integrated channels are superior to those in which the channels are essentially autonomous and independent of one another. In integrated systems, consumers can achieve synergy effects in the use of sales-channel systems.

Accordingly, when appropriately formulated, multi-channel systems in retailing impact positively on consumers. They use the channels more frequently, e.g. for visits, buy more from them and there is a positive customer-loyalty impact.

References

- Alba, J. et al. (1997): Interactive Home Shopping: Consumer, Retailer, and Manufacturer Incentives to Participate in Electronic Marketplaces, in: *Journal of Marketing*, Vol. 61, No. 3, pp. 38-53.
- Barua, A. et al. (2001): Driving E-Business Excellence, in: *Sloan Management Review*, Vol. 42, No. 1, pp. 36-44.

Duffy, D.L. (1998): Customer Loyalty Strategies, in: Journal of Consumer Marketing, Vol. 15, No. 5, pp. 435-448.

East, R.; Hammond, K. (1996): The Erosion of Repeat Purchase Loyalty, in: Marketing Letters, Vol. 7, No. 2, pp. 163-172.

Gupta, A.; Su, B.; Walter, Z. (2004): An Empirical Study of Consumer Switching from Traditional to Electronic Channels: A Purchase-Decision Process Perspective, in: International Journal of Electronic Commerce, Vol. 8, Spring, pp. 131-161.

Mathwick, C.; Malhotra, N.K.; Rigdon, E. (2001): Experiential Value: Conceptualization, Measurement and Application in the Catalog and Internet Shopping Environment, in: Journal of Retailing, Vol. 77, No. 1, pp. 39-56.

Mols, N.P. (2000): Dual Channels of Distribution: A Transaction Cost Analysis and Propositions, in: The International Review of Retail, Distribution and Consumer Research, Vol. 10, No. 3, pp. 227-246.

Morschett, D. (2002): Retail Branding, Wiesbaden.

Nicholson, M.; Clarke, I.; Blakemore, M. (2002): One Brand, three ways to shop: situational variables and multichannel consumer behaviour, in: International Review of Retail, Distribution and Consumer Research, Vol. 12, No. 2, pp. 131-148.

Porter, M.E. (2001): Strategy and the Internet, in: Harvard Business Review, Vol. 79, No. 3, pp. 62-78.

Schramm-Klein, H. (2003): Multi-Channel-Retailing, Wiesbaden.

Schramm-Klein, H.; Morschett, D. (2005): Retail Formats: Integrated Channel Strategy and its Impact on Customer Loyalty, in: Proceedings of the World Marketing Congress 2005 of the Academy of Marketing Science (forthcoming).

Shlesinger, J. et al. (2001): Order Fulfillment - Delevering the E-Promise, in: Ivey Business Journal, Vol. 65, No. 6, pp. 14-19.

Tang, F.-F.; Xing, X. (2001): Will the Growth of Multi-Channel Retailing diminish the Pricing Efficiency of the Web?, in: Journal of Retailing, Vol. 77, No. 3, pp. 319-333.

Vishwanath, V.; Mulvin, G. (2001): Multi-Channels: The Real Winners in the B2C Internet War, in: Business Strategy Review, Vol. 12, No. 1, pp. 25-33.