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   OBJECTIVES

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MULTICHANNEL STRATEGY – A COMPETITIVE ADVANTAGE TOOL OF ORGANISED RETAILERS

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ABSTRACT

Multichannel retailing is the set of activities involved in selling merchandise or services to consumers through more than one channel. Multichannel retailers dominate today's retail landscape. Retailers are increasingly leveraging their presence across channels – catalogue, web, stores and kiosks, to increase their share of the customer's wallet and expand across consumer segments. Recent studies on consumer shopping behaviour indicate that multichannel shoppers show a significantly higher value and frequency of purchase than single channel shoppers. While there are many benefits of operating multiple channels, these retailers also face many challenges. In this article, we discuss the key issues concerning multichannel retailing, including the motivations and constraints of going multichannel, the challenges of crafting multichannel retailing strategies and opportunities for creating synergies across channels, increasingly, retailers are turning towards multichannel retailing to grow their market share and present a uniform and seem less shopping experience and branding across channels. However, enabling integration and synchronization of organisational structure, processes, operations and systems are significant challenges to realize the multi-channel retailing based on client experience and recommendations for building a customer centric retail enterprise.

KEYWORDS

Digitization, e-tailing, Multichannel, Social Shopping Trends, Strategy.

INTRODUCTION

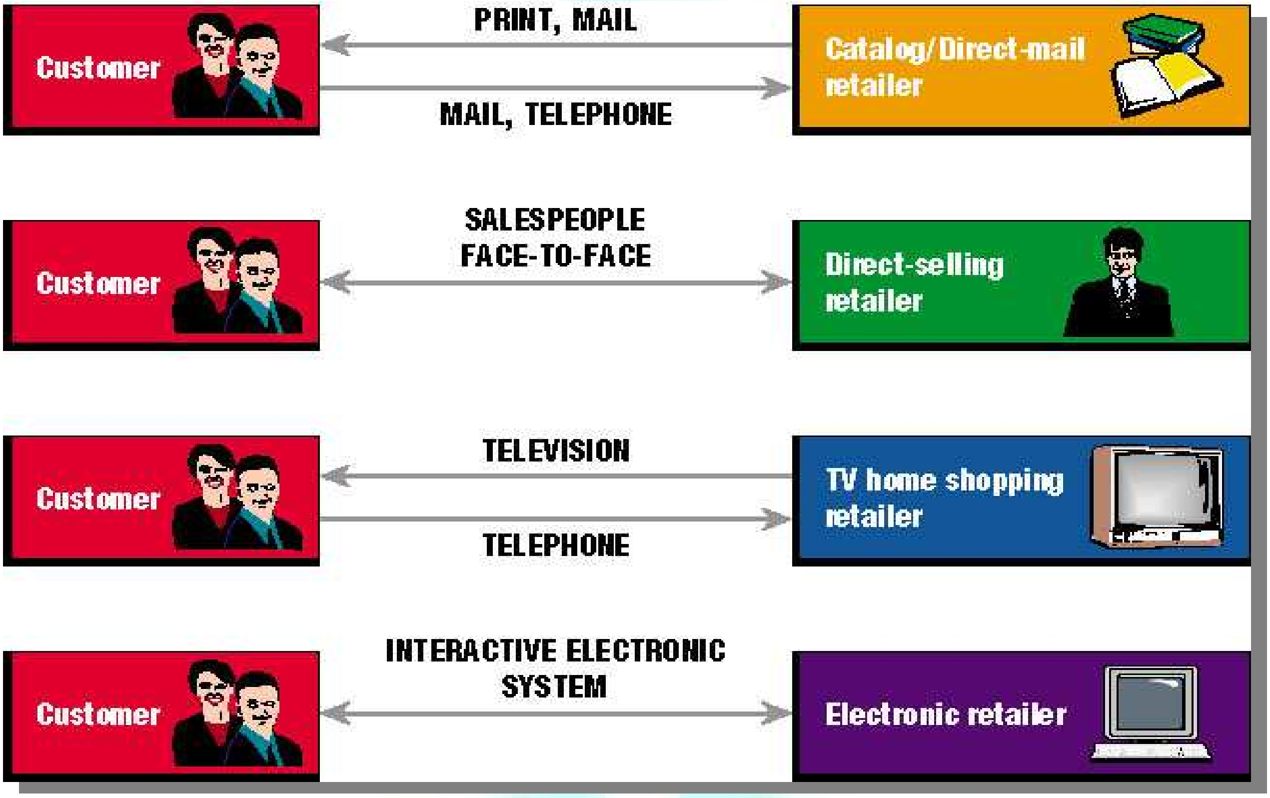
Multichannel retailing is the set of activities involved in selling merchandise or services to consumers through more than one channel (See Figure 1). This definition distinguishes multichannel retailing from multimedia marketing that typically involves the use of multiple channels to simply communicate with customers. Multichannel retailers are firms that engage in multichannel retailing and whose primary source of revenue is retailing activities. Multichannel then refers to the delivery of customer propositions via multiple channels with at least some degree of cross channel integration in management, information and service, i.e. in a consistent and coordinated way across all channels

FIGURE 1: CHANGE IN NATURE OF RETAIL INDUSTRY

Several unique aspects of the retailing business make multichannel operations more complex and challenging. In general, retailers have to manage a large number of stock-keeping units (SKUs) in their assortment of products (usually not manufactured by the firm), make decisions and frequent modifications on many retail mix elements for each SKU, interact with numerous and often diverse groups of end users, deal with a large number of vendors, and be responsible for the logistic process of selling and delivering products to their end users. In addition to the operational complexities, the potential benefits afforded to

customers are also significantly greater, as we will discuss, than simply using multiple channels to communicate with customers. These factors call for a comprehensive review of issues concerning multichannel retailing.
While emerging technology has been a key enabler, multi-channel growth is essentially driven by consumers. According to Shop.org, 34% of consumers today use at least three channels when shopping. Research has found them to spend up to 10 times more, to generate 25 to 50% more profit and demonstrate greater loyalty than their single-channel counterparts. The core driver then is customer demand. The other major driver is cost saving through efficiency and effectiveness. Managing channels separately may not only impair customer relationships but also result in cost increases resulting from running separate order-management and customer service operations, multiple warehouses and fulfillment systems, and buyers and merchandisers duplicating effort across the different channels.
Multichannel is also driven by strategic 'Competitive Advantage' and differentiation opportunities, and regulatory pressures around ensuring that all customers are able to access products and services on offer. Multichannel retailing is not a new phenomenon, and a retailer can start from any one channel and move to other channels later. For example, Sears became a multichannel retailer in 1925 when it opened its first store to complement its catalog channel which was launched in 1886. Many retailers followed Sears lead selling merchandise through both store and non-store channels (See Figure 2: Non-store Channels), these channels mainly operated as separate businesses and were not integrated. To a large extent, the emergence of integrated multichannel retailing was driven by the rapid expansion of the Internet as a new selling channel. In the mid- 1990's, the Internet was viewed as a disruptive transformational technology with respect to the retail industry. Futurists envisioned consumers abandoning stores and buying most products and services over the Internet. They predicted that store-based retailers would be replaced by Internet-savvy entrepreneurs who could harness this new technology to provide superior offerings to consumers.

FIGURE 2: NON-STORE RETAIL CHANNELS



ADVANTAGE OF NON-STORE RETAILING EVOLUTION
Fifteen years later, the Internet appears to be more of a facilitating technology in many domains, enabling traditional store-based retailers to complement their store offering with online channels, to improve their operational efficiency, and to enhance the benefits provided to customers. These traditional retailers have evolved into multichannel operators, and they now dominate the Internet retailing space. Retail organizations are facing many new challenges and opportunities in the multichannel retailing environment. There are also many questions to be answered by marketing researchers and industry practitioners. What motivates retailers to go multichannel and what constraints, opportunity to create synergy across channels? And how will multichannel retailing evolve over time?

NEED OF THE STUDY
Ultimately, the search for improved financial performance motivates traditional single channel retailers (store based, catalog, TV home shopping, or Internet-based retailers) to evolve into multichannel operators. While the decision to sell through additional channels prompts concerns about cannibalization and negative spillover, research indicates that operating multiple channels can have a positive effect on financial performance. Three major needs for which retailers are adopting multichannel are:
1) TO ACCESS TO NEW MARKETS: The market for store-based retailers is typically limited to the local trading areas of their stores. Thus, adding non-store channels (e.g. Internet, catalogs, mobile phones) enables retailers with limited locations to exploit economies of scope by expanding their markets without building additional stores.
2) TO CREATE CUSTOMER SATISFACTION AND LOYALTY: By using a combination of channels, retailers can better satisfy their customers' needs by exploiting the benefits and overcoming the deficiencies of each channel. For example, the store channel provides certain unique benefits, including: the potential to use all five senses when evaluating products, personal service, the option of cash payment, entertainment and social experiences, and immediate acquisition.
3) TO CRAFT A COMPETITIVE ADVANTAGE: The opportunities for multichannel retailers to develop a strategic advantage arise from their abilities to develop resources that are not easily detected or duplicated by competitors, such as (1) propriety customer information and (2) tacit knowledge for providing a seamless customer interface. These resources can build customer loyalty and reduce costs. It is difficult for many store-based retailers to develop extensive customer purchase history databases because of their inability to link customers to transactions when the customers pay in cash or use third-party credit cards.

OBJECTIVES OF THE STUDY
- To explore the prospects of Multi-channel retailing adoption of Organized Retailers.

- To depict the implications in adopting the Multichannel strategy in Retail operations.

MOTIVATIONS AND CONSTRAINTS FOR GOING MULTICHANNEL

Another strategic resource possessed by effective multichannel retailers is the tacit knowledge associated with integrating multiple channels. Consumers desire a seamless experience when interacting with multichannel retailers. For example, they want to be able to buy a product through the retailer's Internet or catalog channels and pick it up or return it to a local store; find out if a product offered on the Internet channel is available at a local store; and, when unable to find a product in a store, determine if it is available for home delivery through the retailer's Internet or catalog channels.

BENEFITS OF MULTICHANNEL ADOPTION

There are a huge number of both organizational and customer related benefits to be gained from implementing a multi-channel strategy. Here's a few:

ORGANIZATIONAL BENEFITS

1) Increased revenue and growth opportunities – more touch points into target market thus, better responsiveness and sensitivity to changing environments
2) Competitive advantage over pure-plays particularly around immediacy, education opportunities for complex products and easy e-merchandise returns.
3) Organizational efficiency and effectiveness opportunities through sharing of processes, technology and information

CUSTOMER RELATED BENEFITS

1) Better and wider customer interaction with a greater variety of information available for improved understanding of customers and identification of opportunities for increasing value per customer (business intelligence)
2) Better customer experience, better understanding of customer's thus reducing churn and increasing loyalty.
3) Opportunity to leverage and improve brand perception

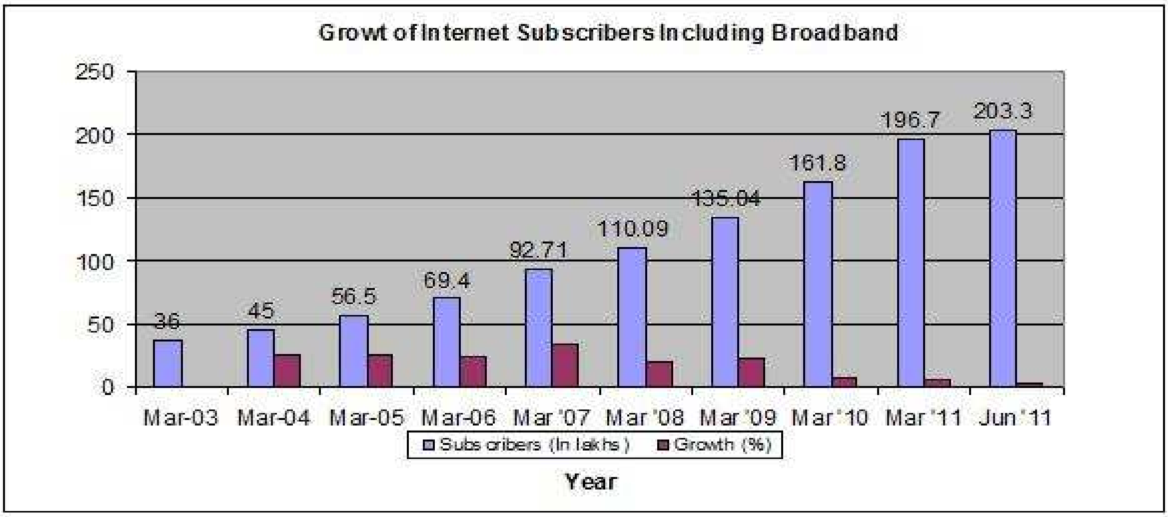
Customers themselves also benefit from increased choice in interaction opportunities and the ability to switch channels as convenient.

CONSTRAINTS FOR EXPANDING TO MULTICHANNEL

While many retailers have become multichannel operators, some have intentionally shunned this strategy so far (e.g. Amazon.com, Netflix, and Blue Nile). There are three key reasons that have kept these retailers from pursuing multichannel: (1) consumer access to broadband Internet service, (2) operational difficulties of integration, and (3) costs of multichannel offering.

BROADBAND INTERNET ACCESS: In the early stages of Internet development, the benefits of operating multiple channels by adding an online channel were questionable because of the limited Internet access among the public, particularly broadband access. This has now become less of a concern in the United States, where Internet access is almost universal among the target segments of most retailers. In 2008, 73% of the adults in the U.S. and over 85% of adults between 19 and 49 with family income over $50,000 used the Internet. When it comes to India the percentages are less but encouraging.

GRAPH 1: GROWTH OF INTERNET SUBSCRIBERS IN INDIA



Source: ISPAI-2011 (Internet Service Providers Association of India)

OPERATIONAL DIFFICULTIES: While there appear to be demand synergies for multichannel offerings (Customers prefer to interact with a retailer anytime, anywhere through multiple, seamless interfaces), operational synergies may be difficult to achieve since unique skills and resources are needed to effectively manage each channel. For example, retail distribution centers (DCs) supporting a store channels are designed to move merchandise cartons from inbound to outbound trucks with minimal handling. With cross-docking, the cartons often remain in the DC for less than a day.

In contrast, the DCs supporting a catalog and/or Internet channel are designed to receive merchandise in cartons and then break the cartons down to individual items for picking, repacking, and shipment to individual customers. These channels also require different packaging to accommodate shipments of individual items as opposed to cartons. Skills for allocating merchandise and managing inventories in a channel with thousands of stores are much more demanding than the skills required managing inventory in a few DCs. The channels may have different target markets requiring unique merchandise and pricing. Due to these operational differences, many multichannel retailers have separate organizations for each channel and even outsource channel management, which further increases the challenges in achieving demand synergies.

COSTS OF MULTICHANNEL OFFERING: For some catalog and/or Internet channel retailers, the costs of opening stores with national coverage may be prohibitive. In addition to the initial investment, these non-store retailers may face considerable inefficiencies in building a store channel due to their lack of knowledge and experience in evaluating locations, negotiating leases, maintaining stores, tailoring the assortment to local markets, and selecting, training, and managing a large workforce. These factors may explain why few non-store retailers have added a store channel to their operations.

Retailers providing high levels of personal services also may be reluctant to add non-store channels or sell their high-end merchandise in non-store channels because of concerns about the negative impact on their brand image. At a basic level, any commercial transaction that involves a direct sale to a consumer at any point of time may be termed as retailing. It can be the selling of apparel, books, music, footwear, grocery items or other things. Such a retail trade could take place in a shopping mall, a mom-and-pop store, a department store, or in a friendly neighborhood grocery shop. Most of such retail trades that can be done through the brick-and-mortar retailing route can be successfully replicated over the Internet as well. In the traditional sense, the term Retailing referred to the final transaction between a business and a customer (B2C).

POTENTIAL SYNERGIES DUE TO MULTICHANNEL ADOPTION

1) **CROSS-CHANNEL CUSTOMER COMMUNICATION AND PROMOTIONS**. One of the most common synergies is the use of one channel to promote another. This extends beyond the potential of multiple channels to increase the efficiency of advertising (e.g., television advertising can drive traffic to stores, telephone centers, or Web sites). In many categories, customers may "shop" in one channel and buy in another. In some cases this behavior is anticipated (e.g., automobile purchases), but in other instances customers may encounter unexpected questions and require person-to-person interactions (phone centers) or inspection (stores). Especially when conversion and up-sell rates differ among channels, retailers may desire to direct customers to another channel to complete the purchase. Routinely, multichannel retailers may be able to gather information on customers or purchase patterns in one channel to improve sales in another. For example, online sales may yield information on the conversation rates between display and sales for various products that inform the choice of products for valuable in-store display space. Since online displays and conversions are often faster, easier, and cheaper to manipulate and monitor, the entire channel may be made more productive with information sharing of this nature. The executives interviewed also reported that budget- and credit-conscious consumers often use the Internet channel to establish the affordability of products available from stores, agents, or telephone and their own credit-worthiness.

2) CROSS-CHANNEL PRICE COMPARISONS. In some cases, companies have established a presence in multiple channels to complement the pricing strategy of the other channels. For example, showcase stores, such as those maintained by Nike, Sony, and Levi's have helped to establish reference prices for other channels. When the same companies begin to sell online, direct to consumer, the prices they charge in this channel may help control the threat of double marginalization.

3) DIGITIZATION: Digitization of products such as operating manuals, bills, warranty documents, and registrations and using the Internet to distribute and/or process them can reduce personnel costs in all channels. In addition, the production and distribution of these products through online channels increases the convenience for customers and frees up service personnel for more profitable and higher value-added customer interactions.

4) SHARED COMMON PHYSICAL ASSETS AND OPERATIONS. Spreading fixed costs across channel scan create economies of scale and scope. A cross-channel return policy also creates cross-selling opportunities, because retailers can encourage customers to shop in the stores when they come to return online and catalog orders. However, these increases in revenues and retention may take time to materialize and, given the costs required to support additional channels, in the short run, customer profits may decline.

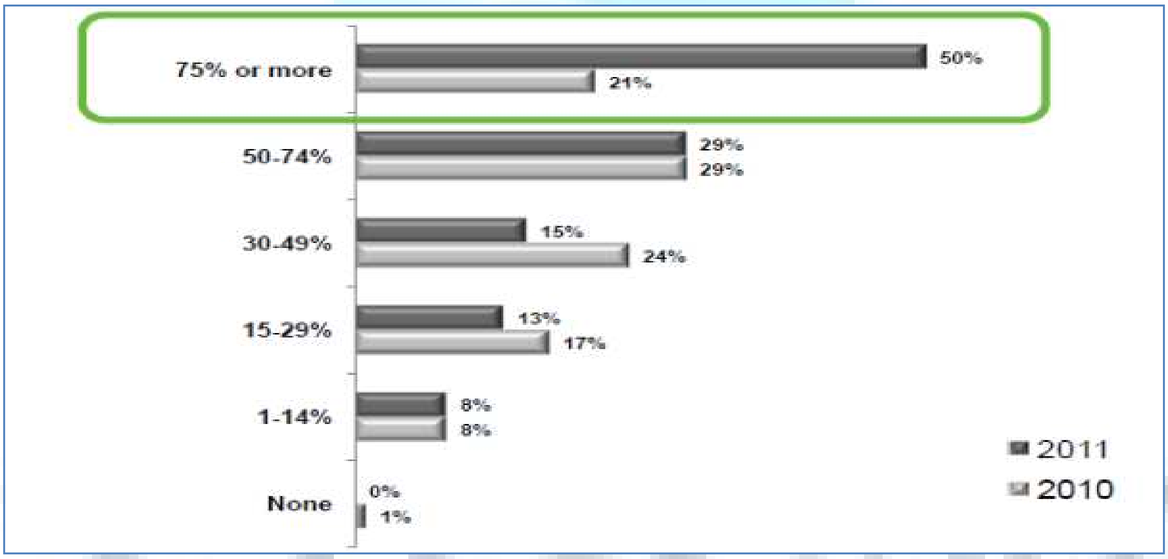
DISCUSSION: SOCIAL SHOPPING TRENDS – SHAPING THE FUTURE OF E-COMMERCE

Consumers are spending more time researching, across more sources, expecting certain social tools in the process. Consumers use 'Facebook' for sharing and discovery, not for research On-site deployment of social tools has the greatest impact on e-commerce sales. Explore consumer utilization of social media across a range of merchants and channels to understand perception, interest and propensity to buy based on that engagement.

- Understand the consumer's level of interest in community across the web and its implication on researching and shopping behavior.
- Trend customer reviews and social shopping to monitor changing and evolving consumer behavior.

Today's shopper is savvy with almost black belt certification in researching product and pricing. There is a method to their madness where they are willing to make a significant investment in time when the reward reaped is finding the right product at the right price. (See Graph 2: Percent of Overall Shopping involves research products online). In 2011, it can be observed that more than 75% of shoppers, research products online, increased to 50% out of total product they purchase, which is 21% in the year 2010, according to recent 'e-tailing Group Survey'.

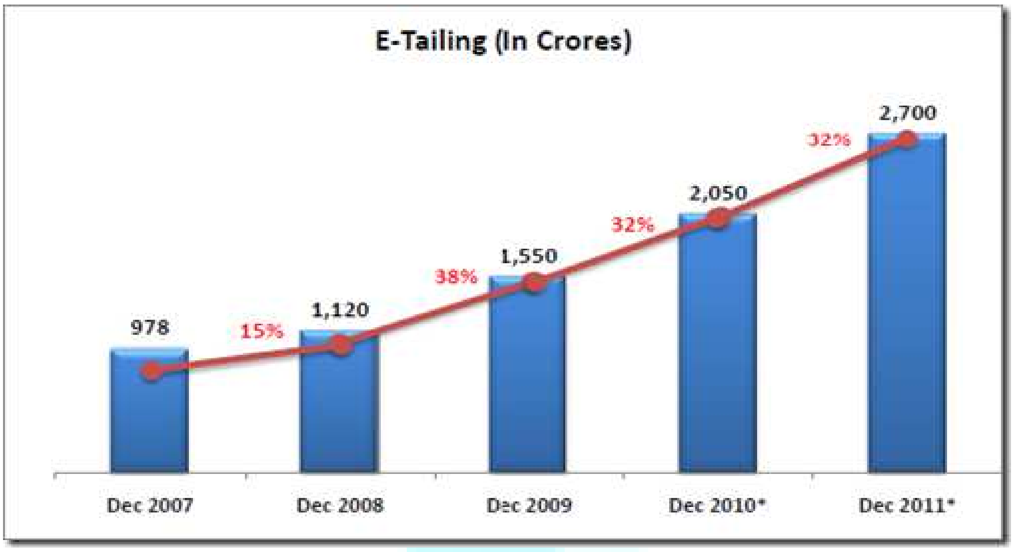
GRAPH 2: PERCENT OF OVERALL SHOPPING INVOLVES RESEARCH PRODUCTS ONLINE



Source: The e-tailing Group Annual Merchant Survey-2011, release

E-TAILING – which comprises buying consumer items including electronic products, home appliances, personal products such as apparels and jewellery and other accessories – is currently worth Rs.2050 crore, and is expected to grow by 32% to Rs.2700 crore by next year(See Graph 3: E-tailing Growth Trend). Another segment that could witness humungous growth opportunity is online financial services including Net Banking, utility bills payment, insurance and other services. The financial service segment is estimated to be worth Rs.2000 crore currently, but is expected to log 34% growth by Dec 2011.

GRAPH 3: E-TAILING GROWTH TREND



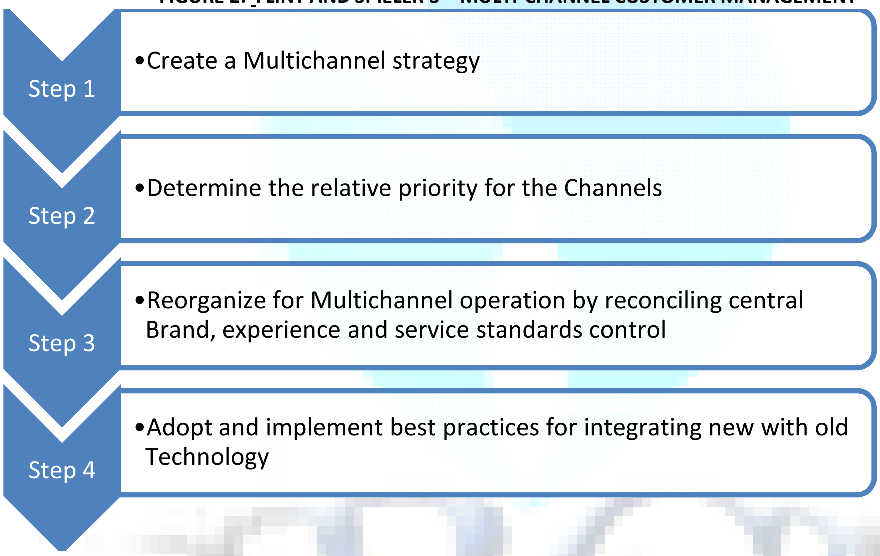
Source: www.trak.in

RECOMMENDATIONS

A well-integrated multi-channel format enables consumers to examine goods at one channel, buy them at another channel, and finally pick them up at a third channel. Multichannel retailing offers synergies, as it can result in an increased customer base, added revenue, and higher market share. Common characteristics of a well-integrated retail strategy include: highly-integrated promotions, product consistency across channels, an integrated information system that shares customer, pricing and inventory data across multiple channels, a process that enables store pick-up for items purchased on the Web or through a catalog, and the search for multi-channel opportunities with appropriate partners.

A good place to start a multi-channel journey is by considering Flint and Spieler's four stage process (Source - IBM white paper on Multi-Channel Customer Management: The Benefits and Challenges) shown in **Figure 2.**

FIGURE 2: FLINT AND SPIELER'S – MULTI-CHANNEL CUSTOMER MANAGEMENT



CONCLUSION

One important point to emphasize is that multi-channel done right needs to be holistic. Rather than being viewed as many separate mini-businesses or business units competing with each other and cannibalizing sales from one another, the winning picture is one of a retailer integrating channels to support and promote one another to affect a better overall customer experience. An increasingly common example is that of a traditional brick and mortar retailer with an on-line channel. While the physical store is the bread and butter of the brand, when properly employed and nurtured the Internet can be a truly powerful ally in reinforcing brand awareness and keeping customers close and informed.

Embedding real multi-channel practices will take time as it involves both a cultural and technological shift for any organization. And strongly recommending when making early stage investment and ROI decisions around multi-channel retailing, is aim to focus on long-term value and competitive advantage rather than short-term profit. In other words, think longer term when developing your business case, and have the patience to see it through. It will pay off.

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