OPPORTUNITIES AND CHALLENGES IN MULTICHANNEL MARKETING: AN INTRODUCTION TO THE SPECIAL ISSUE

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During the past decade, customers have become familiar with using various interface technologies, such as Web sites and wireless devices, to interact with firms. Increasingly, they choose the times and the channels through which they deal with firms for different aspects of their interactions. It is becoming common for customers to use different channels at different stages of their decision-and-shopping cycles, for example, using Web sites to obtain information but making purchases offline; in the past they typically obtained all their channel services from a single integrated channel at all stages of their decision process. We refer to customers who use more than one channel to interact with firms as multichannel customers, and marketing strategies to reach such customers as multichannel marketing. According to a study by Doubleclick (2004), the incidence of multichannel shopping among online shoppers increased from 56% to 65% between the 2002 and 2003 holiday seasons.

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In this Introduction, we give (a) an overview of multichannel marketing, (b) summarize some of the opportunities and challenges for firms in pursuing multichannel marketing, (c) highlight the research opportunities in this area, and (d) provide a summary of the papers in this special issue.

Multichannel marketing enables firms to build lasting customer relationships by simultaneously offering their customers and prospects information, products, services, and support (or any combination of these) through two or more synchronized channels. Thus, for example, a firm might deploy multichannel marketing strategies and tactics to help customers to browse for product information at a Web site, then purchase at a store, and later obtain technical support over the telephone. By carefully synchronizing its channels, a firm creates superior channel service outputs and gives its customers fewer reasons or opportunities to switch to competitors because of inconvenient channel access, or loss of control in interacting with the firm. Also, by tracking customer behavior across channels, firms can improve their understanding of their customers' decision making and develop a basis for creating strong relationships with customers and improving retention.

Because many leading firms (for example, Dell, Circuit City, and Barnes & Noble) have highly visible multichannel marketing programs, most industries are reorganizing channel flows, creating opportunities and challenges for every firm to explore multichannel marketing programs to strengthen relationships with its customers. For example, because of such Web sites as edmunds.com and gm.com, 64% of new car buyers obtain information online before purchasing cars, even though they still make most of the purchases in dealerships (J.D. Power and Associates, 2004). As a result, in buying new cars, consumers increasingly tend to make brand choices online but make purchases offline. The implications for automobile manufacturers such as General Motors are profound. If GM brands do not become part of the consideration sets of customers who are looking for information online, those customers may not show up at dealerships to test drive GM cars or purchase GM cars. What makes things even more complex for GM is that it does not control all online information sources, and customers get their information from independent customer organizations, such as edmunds.com, or from online communities.

To enable customers to switch from one channel to another easily, firms using multichannel marketing need to deploy the appropriate information technologies to gain a common view of their customers across their different channels, and also to work as one company to coordinate the channels in meeting their customers' needs. To induce its departments, divisions, and channel partners to work in unison to satisfy each customer, the firm must deploy sophisticated technologies and infrastructures to link customer information to real-time operations. It can then interact with customers across different channels and know that those interactions appear to be seamless to the customers. Some firms, such as Dell, Lands End, and Fidelity Investments, have come a long way in meeting the needs of multichannel customers; whereas many other firms are still struggling to find a profitable and effective way to serve such customers.

It is important to recognize that multichannel marketing (Figure 1) is not the same as traditional

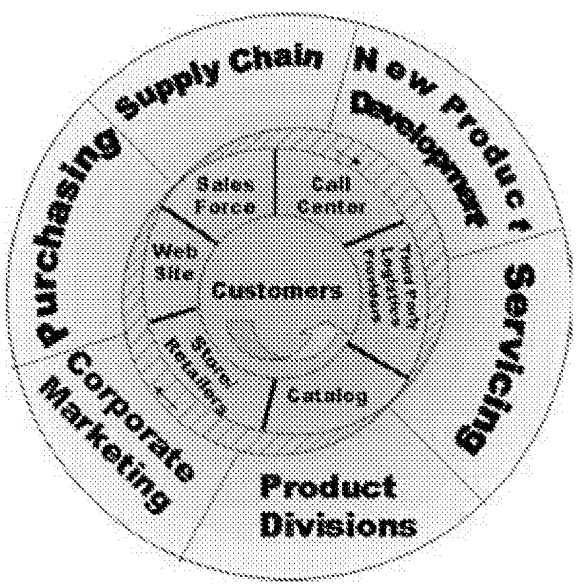

FIGURE 1

A visual representation of a multichannel marketing system showing that customers are at the core of that system. A customer chooses the channel through which to interact with a firm at a given time, for example, through a call center. That channel not only provides the information and services to meet the needs of that customer, but also facilitates further interactions with other channels and divisions of the firm, if needed, to take care of the customer. Such dynamic and real-time alignments between various entities in the channel system characterize multichannel marketing systems, as compared to traditional systems with static structures and flows.

multiple-channel marketing, in which a firm interacts with different segments of the customer base through different channels, for example, using personal selling for large customers and using retailers for small customers. In multichannel marketing, customers can use alternative channels to reach the departments within the firm at their discretion, and they may choose different channels at different times.

Although many managers are seeking information and insights on multichannel marketing, few academic studies have been devoted to systematically investigating the drivers and consequences of multichannel marketing. The opportunities and challenges associated with multichannel marketing raise many interesting questions for academic research, including the following:

1. *What are the characteristics of multichannel shoppers, and how do such customers influence firm performance?* Research has produced few generalizable insights regarding what types of people are likely to shop across channels, why they do so, what circumstances make them prefer one channel over another, and what factors help or hinder them in the process. We also know very little about the consequences of multichannel shopping for firms, except that, on average, multichannel shoppers tend to spend more at a firm than single-channel shoppers. Without good answers to these questions, marketers cannot optimize the levels of their marketing efforts, such as product assortments, prices, and services in different channels. Although a new phenomenon, multichannel shopping is growing in importance; researchers need to identify its scope and domain and identify opportunities for detailed follow-up research.

2. *What is the strategic role of multichannel marketing?* Following the adage that 20% of their customers bring in 80% of the profits, some firms view multichannel marketing as an opportunity to divert their low-value customers to low-cost channels, such as self-service Web sites or telephone lines with longer waiting times. However, many other firms view multichannel marketing as a means to target their high-value customers by providing those customers with more contact opportunities (touchpoints). Several industry studies, as well as the article by Kumar and Venkatesan in this special issue, show that multichannel shoppers typically are the more valuable customers who purchase more from the company than single-channel shoppers. We do not yet understand the factors that drive their behavior. However, high-value customers typically also have greater familiarity with the company than low-value customers and are able to use the different channels more effectively. Also favorable multichannel shopping experiences reinforce customer relationships, which in turn, induce further purchases, converting some customers into high-value customers who were not already in that category.

   Is multichannel marketing a strategic necessity for companies? Must firms pursue multichannel marketing just to survive in today's market environment, or can they use it to obtain strategic advantages? What is the role of multichannel marketing in strengthening firms' relationships with their customers? Do firms with multichannel marketing systems perform better than those within their industries that don't yet have such systems? Does multichannel marketing enable firms to differentiate their offerings and services from those of their competitors? For example, do retailers, such as Circuit City and Sears, that have linked their online and offline operations (for example, items selected at Web sites can be picked up, or returned, at the store), make it harder for pure online retailers to compete with them, and has this linking provided them any enduring advantages? These and other questions are interesting topics for research in marketing strategy.

3. *What organizational changes and incentive structures are most appropriate for multichannel marketing?* Most organizations are not structured for providing their customers with an integrated brand experience across channels. For example, in many companies, separate divisions or marketing groups are responsible for different channels. Often, no one is specifically responsible for ensuring the uniformity of customer experiences across channels. Recently, some companies, such as Coca Cola and Sun Microsystems, have appointed C-level officers (for example, a chief customer officer or a chief customer advocate) to address this problem. Some companies, such as Dell and Cisco, have formed customer councils that they use to get ongoing feedback regarding product performance and to make doing business with the company

easy. And, such companies as Barnes & Noble, which had separate online and offline operations, have recently integrated the two.

An important management issue in catering to customers who use different channels at different times for different purposes, is to ensure that the firm has the appropriate incentives and policies in place to ensure that all the channel entities act as one unit in meeting the needs of its customers. Some firms are experimenting with multi-reward systems, which provide all of the channel members some reward when a customer transaction is successful. We need to study the efficacy of alternative approaches for structuring multichannel systems and providing incentives to channel members (Tsay & Agrawal, 2004) and for developing methods for identifying and integrating data from various channels and analyzing cross-channel customer behavior to help firms make strategic and tactical choices (Park & Fader, 2004).

4. *How does the shift towards multichannel systems affect channel relationships and power-dependence balances in these relationships?* If manufacturers start interacting directly with end-customers (direct channel), they probably will depend less on intermediaries for customer information and leads. Further, they may start performing functions that those intermediaries previously performed and thereby introduce new price dynamics into the channel system. Such changes will alter the dependence structure in the channel relationships. Likewise, dependence relationships could change if manufacturers no longer depended on a single intermediary to perform channel functions.

We need to better understand whether and how multichannel systems and structures induce channel conflicts and how firms can mitigate such conflicts. Firms with indirect channels (those that work with independent intermediaries), that implement multichannel marketing will need to minimize the potential for dysfunctional channel conflict, which can occur in various ways: (a) Any direct sales (for example, through a Web site) the company makes to end customers may be perceived as attempts to undercut these intermediaries. However, from the firm's perspective, direct contacts with its customers are likely to help it to identify leads and up-sell and cross-sell opportunities. This is the situation facing companies such as HP that have a large number of resellers who promote their products and services. Although HP has taken many actions to mitigate potential conflicts (for example, the Web site charges higher prices than what the intermediaries offer; and it formed a reseller council to advise it on resellers' concerns), we need a better understanding of the general impact of such strategies. (b) Even if a company makes no direct sales to end customers, its attempts to establish legitimate direct communications with end customers may be perceived by intermediaries as creating the conditions for future conflict. In traditional channels, such conflicts will likely reduce only resellers' efforts and not affect customers' overall brand experiences once they contact the resellers. On the other hand, in multichannel contexts, conflicts can disrupt the chain of activities that the customers undertake to complete a transaction, which can damage customers' brand experiences and reduce future sales to those customers. Thus, the perennial questions about channel conflict may take on a different tone in multichannel marketing contexts.

A related question is "What governance structures and mechanisms will be most effective for coordinating activities among independent channel members?" Without careful coordination, the firm cannot create a common brand experience for customers across different channels. Thus, we need appropriate governance structures for coordinating the various channel members to ensure that they act in unison. We need to understand what drives parties to share information within and across channels. Further, we need research-based insights to guide the design of appropriate compensation schemes to avoid problems caused by customer free riding (Wu, Ray, Geng, & Whinston, 2004). Free riding occurs when one channel member (for example, an online car dealer) benefits from the actions and efforts of a competing channel member (for example, a offline dealer who employs salespeople and has cars on the lot for customers to test drive) without paying for, or sharing the costs, of those efforts.

5. *How should firms deploy their resources in multichannel systems?* Marketers face ongoing challenges in optimizing their expenditures of effort across channels. Most vendors do not offer integrated

cross-channel services, which makes it difficult for firms to manage marketing campaigns that include multichannel customers. For example, firms often send brochures to a mailing list to drive traffic to a Web site and then follow up on important leads via targeted e-mail messages or sales-force contacts. However, firms often have to deal with different vendors for managing brochure printing and mailing, Web site tracking, and e-mail targeting, each providing options for only self-contained suboptimal spending decisions. These problems multiply in situations involving indirect channels and when customers have different preferences for the various channels at different stages of their decision process. For example, for some customers, brochures are most effective in leading them to the company's Web site, whereas for others, targeted e-mails are most effective in influencing them to visit the Web site. We need research to understand the relative efficacies of the various marketing instruments at different stages of the consumer decision process, allowing for the possibility that the stages of the decision process may occur in different channels.

6. *How does information inconsistency across channels affect customer satisfaction and loyalty?* Multichannel customers often complain about the inconsistency of information across channels, for example, a call center agent may provide information different from the information at the Web site. The lack of inventory visibility across channels is a major source of inconsistent responses to customers. Many firms do not have enterprise-wide systems for inventory management, and those that do, have not necessarily linked their Web sites to their inventory system and to the systems of their channel partners. Because of such creaky systems and processes, many customers find out days after they have ordered and paid for an item that it is back-ordered.

No well-defined organizational mechanism guides content development and deployment across the different divisions and channels of most companies. For example, an item may have different part numbers in different channels. Because a firm's total spending on content is not often visible or is not specifically managed, the information it presents to customers in different channels varies in consistency and responsiveness (for example, loading times at Web sites). Different channel members may vary in their understanding of customer preferences for information security and privacy and in the rules by which they share such information with other channel members. For example, customers may not want the information they have provided to an independent reseller or distributor to be shared with the manufacturer. At the same time, multichannel marketing works well only when channels share information. We need research to understand which types of perceived inconsistencies most annoy customers, how such inconsistencies affect customers' satisfaction and loyalty, and what firms can do to reduce the occurrence and negative impact of such inconsistencies.

One way to reduce inconsistencies is by integrating customer data across the company. For example, IBM is in the midst of a multiyear effort to integrate over 800 disparate customer databases. Without integrated customer databases and uniform content across channels, it is difficult to create positive brand-reinforcing customer experiences across channels. Marketers must help to design integrated databases. Most companies have no answers to such basic questions as what information in customer databases is most useful for increasing customer loyalty or for insuring that customers have favorable brand experiences. Should firms retain data on every interaction for future use (for example, all page-views at a Web site)? Should they retain some data in summarized form (for example, the frequency of customer interactions across different channels)? Marketing analysts are better suited for guiding database designers in addressing these types of issues than information systems managers. Without a customer-based assessment of data requirements, technology availability, rather than the company's strategic rationale, will guide database design.

This special issue contains articles about some of the early research to address some of the issues we have identified, particularly research into the characteristics of multichannel shoppers. Specifically, the authors of the articles here explore (a) the nature of multichannel shopping behavior, (b) the drivers of multichannel shopping behavior, and (c) the performance consequences of multichannel customer behavior. We hope that these studies on customer behavior will stimulate further research to address the other research themes we have outlined.

In response to our Call for Papers, we received 22 submissions from which we were able to accept five for the special issue. In the first article, Balasubramanian, Raghunathan, and Mahajan discuss five goal factors that influence customers' channel choices and use at different stages of the purchase process. They argue that a pure economic view of channel choice and use is likely to be incomplete and that more attention must be paid to the psychological biases and goals that are invoked when consumers use specific channels. In the second paper, Verhoef and Donkers study how customer retention and cross-buying behavior differs for customers acquired through different channels (for example, Internet, direct mail, radio and TV). They find that for a financial services provider, customers acquired through different channels differ with respect to retention rate and cross-buying behavior. In the next paper, Kumar and Venkatesan identify the characteristics of multichannel shoppers and how exactly they contribute to a firm. They show that overall customers who shop across multiple channels provide higher revenues and higher share of wallet, and are more active than those who shop in one channel. In the fourth article, Dholakia, Zhao, and Dholakia show that when a retailer adds new channels for interaction, customers add these channels to the set of channels they use for shopping, rather than replacing their existing channel(s) with the new channels. Further, they find that customers are channel-loyal for repeat purchases, and if they switch between channels, they tend to do so between similar channels rather than between dissimilar channels. Finally, in the fifth paper, van Baal and Dach explore a potential downside of multichannel marketing, i.e., free riding. By decoupling channel flows, are firms inadvertently enabling customers to obtain information through one of their channels but to purchase the product through another channel from a competitor? They find that 20% of the consumers are free riders. This raises interesting questions with respect to compensation schemes, such as how to measure and subsequently compensate various channel members for their contribution to different channel flows.

As we have pointed out, many other interesting research topics invite serious academic research in this nascent area of marketing. We hope this special issue will inspire researchers to explore the many interesting facets of multichannel marketing.

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