Multi-channel retailing: The route to customer focus
Putting the customer first by moving from multiple channels to multi-channel retailing
Figure 1:
Document structure
Executive summary

The retail market is changing and becoming ever more competitive and complex. Retailers are facing a wider diversification of customer needs, fragmentation of values, global competition and empowered customers. Retailers who focus on internal efficiencies and cost reductions will no longer remain competitive. Transformation is imperative in all industries, with CEOs focusing their efforts now on growth through substantial operating model change\(^1\). Innovation in products and services is being replaced as the number one priority by business model innovation as many retailers see fundamental change in how they manage, operate and service their customers as the means to truly respond to the new demands and, all importantly, win the loyalty of the future customer.

The goal for forward thinking retailers is to re-organise their entire businesses around the customer: using customer information to dynamically change business processes, personalise offerings and allow customers the flexibility to browse, enquire, buy and return on any combination of channels depending on each and every individual shopping mission\(^2\).

The tough challenge faced by retailers is how to make this revolutionary change whilst continuing to grow and service their customers. Maintaining the status quo is no longer an option with niche and global players investing heavily in new customer centric services, fuelling even higher levels of expectation amongst customers and higher levels of operational complexity.

Multi-channel retailing (MCR) provides an answer to this dilemma. Effectively implemented, multi-channel retailing is a catalyst for change across the business, helping retailers move away from product centric operations to more customer centric organisations, creating a model that meets the expectations of the future customer whilst delivering profitability and growth.
Importantly, multi-channel retailing is not just about exploiting technology to open new channels to market. To succeed, retailers need to capitalise on the growing volumes of information readily available through physical and on-line interactions, integrating this information horizontally across their businesses resulting in the ability to bridge organisational silos to deliver a totally new integrated experience for the customer.

We therefore regard multi-channel retailing as a great enabler for remodelling retail organisations around the customer, reinforcing brand and driving sustainable, profitable growth. Implemented correctly, MCR will transform every part of a traditional retail operation and as such offers both the greatest challenge and opportunity.

The challenge is how to transform your organisation’s structure and processes, carefully gauging the extent and pace of change to meet employee and customer expectations without damaging brand.

The opportunity lies in understanding how to win the customer of the future. For retailers this will require improvements in every aspect of the business providing “anytime, anyplace and any product” services. Retailers need to be very clear as to their brand proposition, leveraging the increasing demand for these cross-channel services to truly differentiate themselves. They need to implement business models that embrace new technologies, providing new ways to interact and service customers whilst also having the agility to change their operations to offer personalised products and services. This multi-channel ability underpins brand consistency and moves businesses closer to meeting and exceeding customer expectation.

Consequently multi-channel retailing is critical in a market in which the only future differentiation will be brand, proposition and capability. This document elaborates on how successful retailers are using multi-channel retailing to make operating model change to put the customer at the heart of their organisations. We identify the key cross-channel customer initiatives and the core IT building blocks, and marry them with approaches that bring businesses to maturity and facilitate the evolution over time to multi-channel and not multiple channel operations.
Meeting the customer need

Multiple channels versus multi-channel

Traditional retailers exhibit a number of traits that prevent intimacy with their customers, forming internal and external barriers to growth and long-term loyalty. External channels such as the Web, call centre, store, phone and catalogue are generally viewed in isolation both by the customer and the retailer, servicing separate groups usually with different offers, products and services. Customers are often not recognised from one channel to another. Loyalty schemes in stores generally do not extend to the Internet or catalogues, goods are regularly priced differently on-line from in store. Product availability varies by channel with few opportunities, for example, to order on-line for in-store pick-up or return.

Equally, internal staff are organised and incentivised to make the channel successful, rather than being focused on winning and retaining business from the customer irrespective of the channels used.

These barriers and inconsistencies inhibit the customer and force customers to view retailers through the channels offered as opposed to delivering a brand proposition seamlessly across channels. To truly service developing customer demand, retailers need to remove these barriers and allow customers to choose the right channel for the right product at the right time based on each and every shopping mission: the essence of multi-channel.

It is important to make the distinction that a retailer with multiple channels does not constitute a multi-channel retailer. A true multi-channel retailer focuses on the lifetime value of the customer and delivers a consistent brand experience through each and every customer interaction, regardless of how the customer chooses to interact with the retailer.

Best in class retailers are replacing traditional retail models with multiple integrated channels, managing multiple purchases at multiple and varying times with multiple supply routes. This “multiplicity” is allowing retailers to meet the emerging customer need of flexibility with consistency and underpins any transformation towards putting the customer at the heart of the retail organisation.
Multi-channel retailing does not originate from the strategy departments of retailers…

Multi-channel retailing does not originate from the strategy departments of large multi-nationals. Rather it is driven by the customers’ desire to shop using whichever channels they prefer. This is an important difference from the late 1990s, when retailers “pushed” new e-commerce services to a largely unprepared population of customers. Now, there is a large customer demand for alternative shopping channels, fuelled by retail and non-retail industries alike – travel (kiosks), finance (on-line banking), groceries (on-line supermarkets) and even government (tax on-line). This leads to the most significant step in moving closer to a customer centric business and is the essence of MCR: The ability to consistently deliver customer choice to the service standard dictated by a combination of channel and brand.

Retailers must provide services in line with their brand proposition that are also in line with channel expectations. This is a tough balance with retailers having to ensure products, prices, promotions and delivery options are not too complicated and yet meet customers’ expectations. Customers will demand the same brand proposition regardless of channel but equally have certain (positive and negative) channel preconceptions. For example, separate pricing on-line from the store is illogical to the customer and yet charging for delivery is often expected. Setting your value proposition by brand rather than channel, whilst accommodating channel needs, is essential to achieving loyalty and cost efficiency.

Why MCR is an imperative for UK retail success:
The developing need of customer choice and higher levels of service

- By 2009 more than one-quarter of all UK shopping will be conducted via the Internet or mobile devices in a market worth some £80 billion, according to IMRG.
- 35% of consumer electronic consumers in the UK regularly use cross-channel services.
- Multi-channel customers drive more sales at a higher gross profit, and these customers tend to be more loyal. Over 60% of retailers found multi-channel customers more profitable.
- This year (2006) e-commerce sales in Western Europe will total $97 billion, up 36% over last year. In just 3 years the market is forecasted to double its size.

For many retailers the Web now rivals their largest stores as a dominant channel.

Highlights

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Customers today want to shop anytime, anyplace, anywhere – and if they are prepared to pay the shipping costs, that’s exactly what they are able to do. Ideally customers will choose this ‘Martini’ style of shopping with their preferred brand. However, if the brand is not available in the channels preferred by the customer, there is a high risk of brand switching on an experimental and potentially permanent basis.

In a recent survey 82 per cent of surveyed shoppers who had a frustrating shopping experience reported that they were less likely to return to the on-line store – not a huge surprise. However, the study also found that 28 per cent of respondents stated that a negative on-line experience made them less likely to shop at the retailer’s physical store, and 55 per cent said that a poor Internet experience negatively impacts their overall opinion of the retailer. Like guests at a ritzy hotel, shoppers are noticing the wilted flowers in the hall and carrying their negative impressions across the entire brand.

Source: CRM.com. May 2006

Retailers need to be able to understand what is the right channel, for the right product for the right time, for each and every shopping mission.

“’The best way to predict the future is to invent it.’”
Alan Kay, noted computer scientist

Customers will continue to expect access to their “favourite” retailer through their preferred channels, selecting what, for them, are the right channels for the right products. Understanding these requirements is an impossible task – and best left to the customer. By delivering your brand through an integrated multi-channel strategy, you provide the flexibility for customers to decide, helping them stay loyal to your brand because you fit each and every one of their shopping missions.

As a retailer, you cannot predict what these are likely to be, but you can plan to accommodate a multiplicity of current and future channels – including TV, phone, PC and perhaps even computer games consoles. Consequently MCR is an imperative now, not just to secure current market share, but to build new models that support long term, sustainable growth and profitability.
The multi-channel goal: Long-term growth and profitability

Challenges in a constantly changing working environment

The biggest challenge for retailers is to recognise that multi-channel retailing is not a once only, plug-in fix. Just as technology, channel options, customer preferences and behaviour patterns are constantly changing, so the constituent elements of a multi-channel retail strategy must remain flexible.

The key challenge in multi-channel retailing is not technical – technology is now mature, cost effective and reliable. The challenge is cultural – getting the business to start thinking in a multi-channel way, integrating processes and information for the benefit of customers and the retail business as a whole at a pace customers and staff can handle.

A successful multi-channel strategy is about the transformation of culture, operations and technology. Retailers must manage these changes, creating an open organisation and establishing a flexible infrastructure able to integrate new technologies, service options and concepts as they emerge. Importantly these changes must be implemented at a pace that fits customer and staff expectations. Rapidly introduced changes tend to fail less often because of technology but more often due to a lack of sponsorship, training and customer buy-in.

Retailers with large legacy investments in physical stores will find it hard to flex their capabilities to support new service options, but they cannot afford to be left behind as newer, more agile retailers interact more adeptly and in a more controlled manner with the customer of the future.

Retailers have to overcome the initial fear from the dominant channel, often the retail store, that its sales will be cannibalised by new channels. In a true multi-channel environment, it does not matter where the customer buys the product – or more controversially where the product is returned. The main focus needs to be placed on why the customer purchased, which channels were used in the shopping process, what the value of each was and how well they integrated to provide a quality shopping experience.
Traditional retail organisation structures are not geared for integrated multi-channel operations. Existing commission, incentives and performance reporting are built for single channels. Such performance metrics align responsibilities with channels rather than with customers and customer revenues. They create internal conflicts and protectionism instead of actively promoting multiple channel sales.

Traditional performance measurements based on sales per square metre, warehouse turnaround time and on-shelf availability are inappropriate in a multi-channel environment. In a multi-channel environment, sales will rarely be attributable to a single channel. Fresh ways need to be found to measure sales from like-for-like customers, the efficiency of the web service (including browse and query) and the number of customers serviced regardless of “products bought”. These statistics require a cross-channel view of customers. They are more difficult to obtain and monitor, but provide valuable intelligence to boost efficiency, revenues and profitability.

These measurements also provide many of the answers to help retailers succeed in MCR by enabling businesses to review channel operations and conversion rates, and decide which areas to invest in and focus on to ensure brand is maximised and service consistent.

The emerging demand for “anytime, anywhere, anyplace” retail is forcing retailers to offer ever more complex and diverse services including store fulfilment, store pick-up, home delivery, reservations, real-time tracking and more. This is increasing customer expectations and customers are defaulting to brands they trust – tending to “shop-down” or “shop-up” to get the mix of product, price and service they want. Retailers with no clear proposition are stuck in the middle of this polarisation and are losing to more adept organisations who precisely understand their customers and consequently provide relevant, personalised products and services.
The future differentiation is brand and capability

Here-in lies the multi-channel opportunity. With the growth in new service options and customer demands, retailers with capabilities to respond will secure customer loyalty and win the customer of the future. By building the capability to offer these extended services, retailers can continue to leverage their brand into new markets, diversifying their ranges with very little additional cost once the “channel infrastructure” is in place. This multi-channel growth opportunity is high on all executive agendas but establishing this infrastructure means investing in core multi-channel capabilities:

- Merchandising and supply chain
- Information management
- Internet experience
- Measurement and analytics

Figure 2:
A typical multi-channel organisational structure with retailers outsourcing e-commerce and eventually maturing to shared services led by brand.

“Ranked as one of the fastest growing retailers, Amazon.com achieved growth of 24%-28% from 2003 to 2005.”
Amazon.com Annual Report, 2005
Prior to undertaking any large-scale change, an organisational structure has to be in place that promotes cross-channel sourcing, pricing, promotions, sales and returns. Retailers have inherent restrictions built into their current hierarchies, with channels protecting their own performance and inventories. Businesses need to re-align around brand, not channel.

**Merchandising and supply chain capability**

Today’s ultra-competitive market means that customers can obtain products from a wide variety of sources. A key differentiation will come from retailers who excel in merchandising and provide cost efficient, customer friendly fulfilment and delivery across a wider, more complex network of suppliers. This is a challenging task and requires specific multi-channel capabilities that do not exist in traditional “best practice” retail supply chains.

Collecting, aggregating and analysing information about customers, products, stock and merchandising across all channels will allow retailers to:

- **Have a single view of customers and orders**, giving a better understanding of customers, their buying behaviour and needs.
- **Use real-time demand** to be more responsive in pricing and merchandising.
- **Combine customer, product and stock information** to optimise cross-channel CRM opportunities.
- **Leverage inventory as a virtual resource**, with a single view of stock in stores and the wider supply chain.
- **Flex assets and resources between channels** in response to demand fluctuations.
- **Use dynamic route scheduling** to deliver to hundreds of thousands of delivery points as opposed to hundreds of stores, based on short lead times of often less than a day.

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**“Just 18% of retailers co-ordinate fulfilment across channels. Most customers therefore receive inconsistent treatment.”**

With these capabilities, true multi-channel retailers will show real service differentiation compared to “multiple channel retailers” by offering delivery and fulfilment options that best meet the needs of customers, products and shopping missions:

The list of potential services shown in figure 3 highlights the degree of people, process and systems integration retailers will need to consider for the future. Existing “multiple channel” retailers will find it hard to bridge these integration gaps, failing to offer service options customers will come to demand.

<table>
<thead>
<tr>
<th>Browse</th>
<th>Order</th>
<th>Fulfil</th>
<th>Deliver / collect</th>
<th>Pay</th>
<th>Return</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Supply chain</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Web</td>
<td>Web</td>
<td>From DC</td>
<td>Home deliver</td>
<td>Cash</td>
<td>Instore</td>
</tr>
<tr>
<td></td>
<td></td>
<td>From vendor</td>
<td>Work deliver</td>
<td>Credit card</td>
<td>Postal</td>
</tr>
<tr>
<td><strong>Store</strong></td>
<td></td>
<td></td>
<td></td>
<td>Store card</td>
<td>Collect</td>
</tr>
<tr>
<td>Mobile Shopping Assistant</td>
<td>Mobile Shopping Assistant</td>
<td>From store</td>
<td>In store collect</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Kiosk</td>
<td>Kiosk</td>
<td>Mobile Shopping Assistant</td>
<td>Home deliver</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Figure 3:**
Multi-channel customer service options.
Internet experience
Too often retailers have focused their multi-channel efforts on developing an all-encompassing transactional web site. However, true multi-channel retailing is far more than this and without the necessary marketing, merchandising, fulfilment and measurement, a good web site may even damage brand by setting levels of expectation too high.

The web site is one ingredient of a successful multi-channel strategy and must be integrated to fit with brand image and current propositions. The web site must promote sharing of information across channels and also across customers. Creating an environment that supports the advocating of channels and products will boost revenues and improve loyalty with future web sites offering a wide range of techniques to allow customers this added social interaction.

Latest innovations in web site design include:

- Web sites designed for browse and search – not specifically purchase.
- Ability to include new brands and services by linking in partner products through the web site (typically starting with financial services).
- Community sites that develop loyalty by allowing customers to share information and promote retailer products.

The importance of integrated information in the supply chain
Information will become more important than stock for multi-channel retailers. Using their merchandising experience and skills, retailers can correctly price and promote products to their customers by understanding their demographic and needs. This requires the ability to consolidate customer, product, supplier and merchandise information to help create these unique insights that again help differentiation.

Unsurprisingly, integration holds the key to making these improvement decisions real investments for the future. These core IT capabilities, or “services”, need to be weaved into the supply chain processes, allowing decisions to be made quickly and accurately.
Multi-channel supply is therefore more focused on the ability to react in real-time – at a cost that is not prohibitive. This is achieved by flexing labour, transport and stock to meet an immediate customer need with new dynamic information technology solutions that help retailers bolster their traditional supply chain applications.

Measurement and communication

Effective multi-channel retailing requires retailers to undertake a fundamental transformation in culture, processes and operations. The pace and scale of change is significant and it is essential that new services and channels are introduced carefully with a full understanding of how best to market them, the benefits for the customer and how the new integrated channels and services will fit with and extend the retail brand.

Uncontrolled, there is a risk that complex multi-channel offers such as price variances, in-store reservations, multiple delivery times, order cut-offs, varying return policies and channel specific product ranges can create customer confusion and ultimately damage customer loyalty.

It is critical to ensure that all staff – in head office, call centres and stores – are aware of the overall objectives, communicate them clearly and helpfully, and work consistently towards the common goal. New incentives and performance measurements are required to achieve buy-in and reinforce the multi-channel approach.

New key performance indicators (KPIs) are required to maximise the potential of an integrated multi-channel operation that embraces stores, the Web, catalogues and call centres. Information needs to be collated by brand rather than channel.

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**Highlights**

“UK grocery chain generated £100m additional annual sales by segmenting customers and targeting discount offers.”
CIO Magazine 7, 2005

“Only 38% of respondents have fully co-ordinated pricing across all channels.”

“Only 32% of retailers have one item master/hierarchy for all channels which makes sharing of stock and sales information difficult and inhibits good planning.”
Like-for-like sales from retail outlets are far less important than statistics on customer retention, basket size and share of purse, and the mapping of channel influences on customer purchases. Staff should be incentivised by the contribution made to overall revenue and customer satisfaction rather than sales made through discrete channels.

It is critical in the multi-channel world to measure all aspects of your service to continually monitor and check what your customers regard as priority services. Surveys continually highlight delivery timeliness as important and yet retailers tend to disregard this, as it is not usually within their bounds to control – at their cost.

“22% of retailers still don’t know or can’t tell how profitable their multi-channel customers are.”
Aberdeen Group, December 2005

New data warehouses and portals are supporting the use of measurements to help retailers define and communicate metrics around service. These should not be seen as solutions but more as enabling technologies, used across the organisation and not fixed to anyone application area.
Laggards and new entrants have the ability to invest quickly in solutions that improve key supply chain and merchandising functions, offering cheap Internet prices with reliability. Established retailers have a harder role, having to maintain the current store base whilst also implementing reliable multi-channel offerings.

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Figure 5:
Laggards ready to make a move, investing in inventory, order and content management.
Multi-channel enablers

Fundamental building blocks for channel integration

To predict future service combinations, retailers need to build a technical infrastructure that separates channel applications from the method used by the customer, sales staff and logistics systems to access them – whilst always promoting compliance and consistency. Based on our experience and research, your multi-channel architecture needs to support the following layers.

<table>
<thead>
<tr>
<th>Web</th>
<th>Call centre</th>
<th>Phone</th>
<th>TV</th>
<th>Kiosk</th>
<th>POS</th>
<th>Futures ?</th>
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**Portal** – a portal offers the means to communicate consistently, with rich functionality and content delivered without the need to develop complex business logic. Portals enable ultra-thin clients, such as phones, to have similar functionality to the Web – albeit restricted by size of screen and keyboard.

**Plan and measure** – MCR can be daunting for retail organisations offering new products, over new channels to new customers. This “new, new, new” approach is difficult to plan and therefore retailers need to measure services at the outset. A granular, cross-channel means to both plan and then measure new services underpins the ability of retailers to navigate their new multi-channel business to determine the contribution and success of different channels in the overall retail performance.
**Highlights**

“Companies that focus on tactical or channel specific issues will likely miss the most important areas of opportunity and struggle to overcome organisational barriers.”

*Cross-Channel Optimisation. IBM 2005*

“More than 50% of Tier 1 multi-channel retailers will offer store pick-up for on line orders by 2008.”

*Gartner, Inc., October 2006*

**e-Commerce layer** – specific e-commerce functions such as product browse, price comparison, shopping cart, order view, credit card check and order placement are separated to allow retailers to selectively offer any of these customer services. Customers are able to check product availability without having to go through a laborious order entry process, to reserve a delivery slot from a phone, and check account status from a kiosk. The options are endless which is exactly the point of MCR.

**Information on demand** – the modern customer has high expectations in relation to service, availability and response. Retailers must reflect this in their multi-channel operations. This requires a new approach to the management, analysis and delivery of core retail information on orders, inventory, products and customers. The ability to weave this critical information into the heart of corporate systems is essential, enabling buying, merchandising, supply chain, marketing, sales and financial systems to work in real-time to reflect changes in demand, and share consistent and accurate access to the same up-to-the-minute information.

Operational silos of information must be replaced with a common, centralised source of intelligence used across functions to provide operational and service consistency that reinforces the retail brand through every channel. To become efficient, retailers need to consolidate key information into single repositories organised under four categories:

- **Single view of order**
- **Single view of stock**
- **Single view of product**
- **Single view of customer**

**Available to promise** – with the push for higher levels of service, retailers need to build real capabilities in the area of order management. Offers such as Circuit City’s 24/24, Ocado’s 1 hour delivery and Argos’s store pick-up all require retailers to promise availability and delivery within the customer’s window of acceptable service.

Success in committing to product within acceptable lead times hinges on technology solutions that enable retailers to use real-time stock, order commitment, supplier agreements, resource and transport feeds
Highlights to make delivery promises that can be achieved. Availability to Promise solutions are essential in allowing retailers to expand into new product and service areas, where they must use established supply chains to direct ship to customers from a wider supplier network.

SOA: Silo Oriented Applications vs Service Oriented Architecture – multi-channel retailing requires investment in new services and new business applications. These new capabilities must be integrated with an IT landscape that is already complex and often does not have the capability to expand and flex to accept new technology and processes.

The increasing demand for new services and ability to respond, is creating a new IT “logical scalability” capability.

The essential learning in any multi-channel investment is to plan for the future and the unknown needs of the customer. Unless these IT products can be scaled, flexed into new services and re-used, today’s “best of breed” solutions will become tomorrow’s legacy applications as demands change and competition intensifies.

To solve this dilemma, leading retailers are reworking their internal practices to be more customer centric, moving away from traditional buying and supply processes and remodelling their businesses to react efficiently to changes in demand and the need for new customer services.

MCR will live or die based on the ability to deliver service consistency along with continuity across different channels.

Services are built as discrete components which are moulded into a comprehensive IT framework. Each component is capable of modification and available for re-use, making for rapid and economic future development. This approach is called a service-oriented architecture and is important in multi-channel retailing. MCR will live or die for a retailer based on the ability to deliver service consistency and continuity across many different channels, and as such SOA is critical in the success of any MCR strategy.

When selecting new technology solutions, retailers need to invest in systems which offer best of breed applications which can be easily integrated as discrete components within the wider technology infrastructure without extensive development effort, complemented by using corporate integration, portal, measurement and information systems. This approach promotes services, not silos of applications, that facilitate re-use and flexibility.
Multi-channel retailing
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Highlights

The new retail operating model

Multi-channel offers innovative retailers the ability to rethink the shopping experience and craft a new service that better meets the needs of their customers. Technology can help by offering new ways for customers to browse, compare, check, reserve and purchase products, handle returns and receive after-sales service. Good multi-channel retailers realise these separate services need to be merged into a single integrated customer experience and their operating models are starting to reflect these as new interactions independent of business department or channel.

This new retail operating model is fundamentally customer centric, with a restructuring of processes that respond to specific customer requests rather than focusing on implementing supplier-retailer agreements. This is a significant change and not undertaken lightly, with many retailers opting for the short term “multiple channel” benefits instead.

Successful cross-channel retailers today may not be successful organisations of the future with success depending on bridging channels sooner rather than later.

Multi-channel operations are still developing in UK retailers, with many providing good web channel services. Interestingly these may not remain successful retailers in the future. Success will depend on bridging the channels sooner rather than later. As systems, demand and expectations mature, change will be even harder and retailers with substantial single-channel investments will find it difficult to make the transition and will be left behind once established multi-channel retailers start offering true integrated and differentiated services to meet the maturing demands of customers.

Apply common themes of integration, information and organisation.

With MCR offering such a substantial and dramatic change, the obvious reaction is for retailers to focus their initial multi-channel efforts on either their strongest or weakest capability, such as buying, merchandising, marketing or supply. Regardless of these functional areas, our advice is to apply common themes of integration, information and organisational structure to underpin any new operating model. Integration of systems and customer experience underpin consistency, while consolidation of key master data sources, operational ability and the opportunity to incentivise and measure across the organisation remove restraints and promote growth. These all form the core enablers for true multi-channel retailing and a new improved retail operating model.
Developing a multi-channel strategy

Maturity model

Maturing to a new operating model is a long journey and will require retailers to use cross-channel information and capabilities to bridge silos to make the change. This change is best undertaken through a set of self-funded project steps, each delivering return, securing market share and maturing the business to an agreed and defined end-goal.

IBM and Santa Clara University have defined a maturity model that helps retailers understand these steps and develop a comprehensive multi-channel offering\(^\text{10}\).

The benefits of operating model change are seen as retailers achieve stages 3 and 4.

Figure 7:
Multi-channel roadmap framework.

Source: Dr. Dale D. Achabal and Dr. Kirthi Kalyanam, Retail Management Institute, Santa Clara University and the IBM Institute for Business Value
During this journey, retailers have to focus on key cross-functional initiatives to develop their multi-channel service:

- **Collaborative merchandising** – improve channel coordination of product, pricing, promotion and inventory, using economies of scale to improve merchandising as a whole.
- **Pricing** – develop and implement a multi-channel pricing policy to eliminate illogical and unfair pricing structures.
- **Marketing** – develop collaborative marketing, event management, synchronized cross-channel promotions, common campaign images, content, cross-channel CRM and implement an approach using Internet and digital communication across all channels.
- **Inventory** – develop and implement real-time cross-channel inventory visibility, expand fulfillment options, focus on availability and Available to Promise (ATP), and aim for a collaborative merchandise and supply chain process focused on servicing multi-channel customer requirements.
- **Customer experience** – develop and implement cross-channel experiences including Internet, phone, kiosk and call centre to provide staff and customers with better product and service visibility and more flexible transactions that promote the brand.
- **Communication** – build awareness and support for the vision, and develop appropriate measurements and incentives to change the business to be more customer centric.
- **Organisation** – align the organisation to support a customer-focused, multi-channel business model.

Each of these initiatives is tackled according to the maturity of the retailer’s channel offerings, and as such the maturity model provides a good guideline for the approach and where to prioritise your investments.
Successful retail approaches

Research shows that retailers tend to have as many as four strategic operating model goals. Based on these, the maturity model helps pinpoint activities by phase:

<table>
<thead>
<tr>
<th>Operating model improvement</th>
<th>Align fundamentals</th>
<th>Achieve proficiency</th>
<th>Leverage cross-channel</th>
<th>Optimise operating model</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Customer centric</strong></td>
<td>Define target market</td>
<td>Build master customer file with cross-channel view</td>
<td>Build direct-to-customer capabilities</td>
<td>Feedback new initiative results by channel into merchandising</td>
</tr>
<tr>
<td>Data mining, industry research to improve data warehouse information</td>
<td>Single customer repository</td>
<td>Customer oriented technology, web and supply chain integration</td>
<td>Merchandise planning integration</td>
<td></td>
</tr>
<tr>
<td><strong>Brand centric</strong></td>
<td>Implement consistent messaging and expand contact cross-channel</td>
<td>Build long term loyalty into ROI model, Balance customer preferences by channel</td>
<td>Use each channel to drive traffic in others</td>
<td>Use marketing budget across all channels to achieve ROI</td>
</tr>
<tr>
<td>Data mining, industry research to improve data warehouse information</td>
<td>Integrate channel preferences into single customer repository</td>
<td>Web, kiosk, assist selling technology in stores</td>
<td>Measurements and analytics by channel to improve budget allocation</td>
<td></td>
</tr>
<tr>
<td><strong>Product centric</strong></td>
<td>Consistent core assortment across channels</td>
<td>Introduce channel specific extended ranges</td>
<td>Use cross-channel inventory to improve service</td>
<td>Incorporate sales trends into planning</td>
</tr>
<tr>
<td>Single view of product repository</td>
<td>‘Endless aisle’ technology by customer range</td>
<td>Match order and supply visibility</td>
<td>Real-time re-ordering and planning</td>
<td></td>
</tr>
<tr>
<td><strong>Information centric</strong></td>
<td>Collate cross-channel product information and deployment methods</td>
<td>Develop interactive approaches</td>
<td>Integrate product files cross-channel</td>
<td>Relocate service personnel cross-channel</td>
</tr>
<tr>
<td>Single view of product repository</td>
<td>Applicable technology in store</td>
<td>Content management</td>
<td>Labour scheduling</td>
<td></td>
</tr>
</tbody>
</table>

**Figure 8:**
Maturity activities vary according to the retailer’s strategic goals.
Aligning to the key initiatives, retailers are investing their resources in the following areas:

- **Stage 0: Create presence** – customer experience initiative. Develop leading web sites that promote collaboration between customers and vendors using latest Web 2.0 techniques.

- **Stage 1: Align fundamentals** – focus on organisation and communication. Start developing plans for collaborative merchandising, cross-channel pricing, co-ordinated marketing plans and initial supply chain-wide visibility to aid manual ordering and management. Implement initial pilots and review results using newly invested measurement and analytical capabilities.

- **Stage 2: Achieve proficiency** – focus on pilot work, extending and improving specific projects to be proficient in the areas that are achieving growth and customer interest.

- **Stage 3: Leverage cross-channel** – co-ordinate merchandising, supply chain, marketing and web site projects to drive traffic across channel, exploit cross-channel stocks and channel wide information to improve overall cross-channel service and reduce costs.

- **Stage 4: Optimise model** – integrate real-time cross-channel information into main processes to improve service and dramatically reduce costs. Use new organisation to share information, staff and assets and develop new cross-channel processes that are unique and inspire the customer.
The benefits of a new multi-channel operating model

The maturity model is iterative. Retailers should mature services by creating initial demand through new experiences, aligning the organisation around the new service and starting to make it proficient. As the retailer develops these capabilities, the next services can start to mature, leveraging the established presence, continuing to re-align the organisation and extending proficiency gains. Optimisation comes when the retailer can start consolidating the new services, thereby dramatically reducing costs whilst fuelling new growth.

And herein lies the benefit: True multi-channel allows retailers to look at their resources as a whole and allocate them appropriately, enabling dominant channels to support less significant ones. For example, while purchase in store is relatively cheap to support, training is not. Conversely, training is more cost effective on the Web but purchasing product on-line is more expensive to support than in-store.

Consequently by optimising your model to provide training as a web service in store with the ability to reserve on-line and purchase in store, retailers are using the best features of each channel to improve their overall business. This encourages multiple channel use, which research suggests drives higher revenues.

The trick is to realise these benefits as you mature your model. Initial investment returns are difficult to find, but retailers can automate costly in-store or call centre processes, and then expose these capabilities later across channels and potentially to the customer. Projects based on growth and "experience" are hard to quantify, whereas benefits based on reducing personnel costs are more obvious and, identified carefully, underpin future multi-channel capabilities.

In short, retailers need to approach multi-channel as a journey, understanding that each stage builds from the last and all stages focus on delivering to a well defined and agreed strategy. In the early stages, benefits will be based on process improvement, with retailers being able to increase investments to achieve more rapid growth as the model matures and improves.
Supporting retail innovation

Retailers developing solid multi-channel foundations are set to offer their customers uncompromising levels of flexibility, delivering their brand in new and flexible ways that excite customers and promote loyalty. Good examples of emerging multi-channel initiatives include US retailers Circuit City and Sears offering virtual stores in “SecondLife”, releasing any traditional store format restrictions and allowing customers to view products in detail and even try out new lines. Many retailers are investigating the role of the interactive television as the next touch-point that will require multi-channel servicing, and retail browsing and purchasing via the mobile phone is growing.

The message is clear: the development of new, easier and exciting means of interacting with customers continues and organisations need to change internally and externally to accommodate these.

Figure 9:
New channels will continue to appear; retailers like Sears are experimenting with virtual stores in Second Life.
Multi-channel retailing is much more than simply tacking additional shopping channels onto existing retail outlets. It provides the opportunity to fundamentally rethink retail operations and in doing so, embrace every aspect of the business to create a foundation for continued growth and profitability. From our experiences in Europe and the US, having a clear, well thought-out strategy that encompasses all aspects of the retail brands, all departments and all channels is key to success and will underpin your ability to achieve sustainable growth.

Obviously, you need to know the goal you are trying to achieve and have a clear roadmap plotting how you are going to get there. However this roadmap is more complex than most retailers expect and must include organisational restructuring, IT integration, improved information systems, business process change, people and cultural issues, motivation and incentives, as well as a thorough technology assessment. It is rare that retailers will have undertaken such a drastic transformation and may feel they lack the skills and knowledge to achieve such a change.

Often such fundamental strategic changes are difficult to cope with internally and some retailers are failing to maximise the opportunity. Meanwhile, other more successful retailers are making early strategic investments and securing a growing market share.

Retailers need to mature multi-channel offers quickly in the current marketplace, keeping their existing business running whilst investing in key skills including business transformation, culture change and technology innovation. To fast-track this, it is helpful to use the experiences of other retailers, understand your future operating model objectives and invest in the core multi-channel building blocks to start the process.
Prepare for ongoing change and continued growth. Retailing is a fast-changing environment and successful businesses must have the organisation, people and technical infrastructure to rapidly integrate fresh innovations. There are good practical lessons to help here but these must be gauged to fit with the pace demanded by your customers and staff.

Above all, keep a watch over your shoulder. At both ends of the spectrum – in both major retail leaders and the market laggards – adapting retail businesses to capitalise on the growth opportunities presented by multi-channel is high on the executive agenda.

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ibm.com/retail
About the author
Danny Bagge is an Associate Director in IBM Global Business Services and has worked in the retail industry for over 15 years, with the majority of this time dedicated to designing and implementing multi-channel solutions for leading UK retailers. Having joined IBM in 2006, Danny leads the UK multi-channel solutions practice and is currently working with UK retailers to develop their multi-channel offers and strategies.

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