

## **Integrated multi-channel retailing (IMCR): A roadmap to the future**

*Many leading retailers have addressed the basic aspects of operating in a multi-channel environment. However, few, if any, have truly exploited the potential of integrated multi-channel retailing to measurably increase customer loyalty and economic returns. What strategic approach will help retailers develop new insights from cross-channel information to drive long-term growth in sales, profits and customer satisfaction?*



*By Julian Chu and Troy Pike*

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## Executive summary

In today's rapidly changing, increasingly complex multi-channel retail environment, competitors face the overwhelming chore of simultaneously reversing the downward trend in customer satisfaction and improving operational efficiency. This environment challenges retail executives to respond on several fronts:

- Develop a unified understanding of a given customer's wants and needs as consumers become increasingly fragmented in the channels they use
- Experiment with emerging technologies to improve customer satisfaction and share of wallet, while tackling significant organization and process integration issues
- Address today's pressing economic challenges, while still building the capabilities needed to compete successfully in the future.

Dealing with these issues necessitates that retailers alter their approach to the marketplace. Rather than focusing on maximizing the next transaction, the emphasis should be on optimizing customer lifetime value and consumer spend across channels. This entails leveraging consumer data throughout the enterprise to create valuable insights that improve both business *and* customer value.

To accomplish this transformation, retail executives need a clear roadmap that can help them maintain tight linkage between customer strategy, organization capabilities and technology. To make it to the next level, retailers need a clear perspective on how they will build the capabilities required to exploit the full potential of integrated multi-channel retailing (IMCR).

Application of a Protect, Evolve, Transform (PET) framework to IMCR will help retailers evaluate the current state of their integration initiatives and assess future efforts:

- **Protect** – Maintain competitive parity and protect existing revenue streams
- **Evolve** – Significantly increase wallet share and customer loyalty, as well as achieve large gains in productivity and efficiency
- **Transform** – Change the basis of industry competition by developing defensible, long-term competitive strengths.

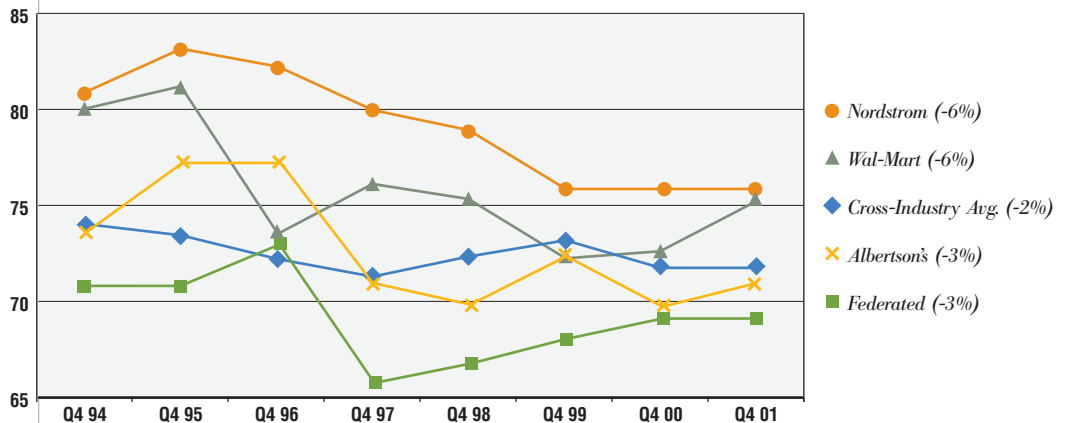
Retailers' approach to multi-channel integration should be flexible enough to adjust to changes in the market, technology availability and customer expectations. At the same time, it should remain focused on the fundamental goal of continuously enhancing the customer experience through improved organizational collaboration and technological enablers. IMCR is not a technology module you can just drop in. Rather, it is a strategic, evolutionary path that retailers must follow to maintain their competitiveness in the short term and build a defensible competitive advantage over the long term.

**Issue**

*As complexity increases, customer satisfaction suffers*

Empowered by ever-increasing access to information and competing products and services, consumers are redefining the business context of retail. They are comfortable interacting with retailers through a wide variety of channels – stores, catalogs, Web sites, call centers and e-mail today; and interactive TV, cell phones, kiosks and yet-to-be-invented digital devices, tomorrow. While providing greater flexibility, alternate channels are also creating increased complexity for consumers and retailers alike. This complexity might be contributing to the greater-than-average erosion in the customer satisfaction of certain retailers compared to the national average across industries (see Figure 1).

**Figure 1. American customer satisfaction index for select retailers<sup>1</sup>**



In this rapidly changing setting, retailers face the daunting task of improving waning customer satisfaction even as consumer expectations and choices become greater than ever. In particular, the new multi-channel retail environment creates a major customer relationship challenge for retailers: as consumers become increasingly fragmented in the channels they use, it becomes more difficult to have a comprehensive understanding of any given customer's wants and needs. For example, when Mrs. Jones came into her neighborhood store every week to fill her shopping list, it was a straightforward task to "know the customer." But with today's intense marketplace competition, megastores, lifestyle diversity and numerous modes of interaction, no one channel or company has a complete view of the customer.

### *Multi-channel retailers are addressing the basics*

While some e-commerce pioneers tried to strike it rich in the equity markets by setting up separate dot-com divisions, the folly of this approach soon became clear. Separation between online and store operations led to business practices and policies that frustrated and confused customers. Likewise, investments in distinct online and offline functions – for example, merchandising, inventory management and marketing – became difficult to justify.

Most retailers quickly changed course and moved to provide more integrated multi-channel shopping experiences to customers. Virtually all dot-com "spin-offs" have now been reconnected to their parent companies. Operational and strategic rationalization have challenged retailers to tackle significant organization and process integration issues, while at the same time, experimenting with emerging technologies to improve customer satisfaction and share of wallet.

Most multi-channel players have now adopted "standard practices" around integrated marketing, customer service and returns management. Some notable examples include:

- Circuit City offers a unique express pickup service that allows customers, while shopping online, to determine if the products they want are available at their local Circuit City store; items can then be picked up to save on shipping charges and achieve more rapid fulfillment.
- At Wal-Mart, an item can be returned to any channel, for any reason, and Wal-Mart Online even includes a postage-paid return label with every order so consumers don't have to pay return shipping charges.

### *Yet much more remains to be done*

These basic improvements do not go far enough, however. The steps taken by most retailers to date are merely “table stakes” and have not enabled them to build competitive advantages that significantly increase customer loyalty and improve long-term financial strength. Consumers, with unmet expectations of channel synchronization and shopping ease, are still undecided about where to place their loyalty.

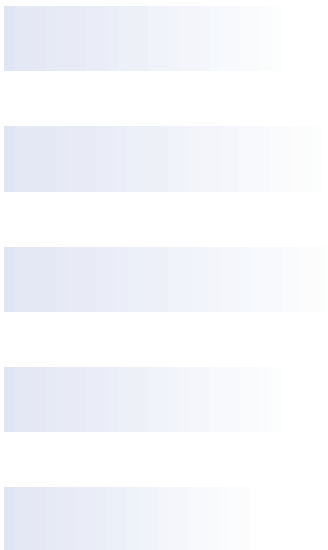
Retailers recognize that increased wallet share and revenues will come in part from a deeper understanding of individual consumer needs, but they are under more pressure than ever to drive near-term return on investment (ROI). Many are overtly changing their priorities to focus on tactical, cost-saving measures, rather than more strategic, growth-oriented initiatives. At the same time, customer demands and competitive intensity continue to rise, and industry competitors cannot sit still.

The key challenge now is addressing today’s pressing needs, while still building the capabilities needed to compete successfully in the future. To make it to the next level, retail executives need to have a clear perspective on how they will, over time, make it possible to exploit the full potential of IMCR.

### **Analysis**

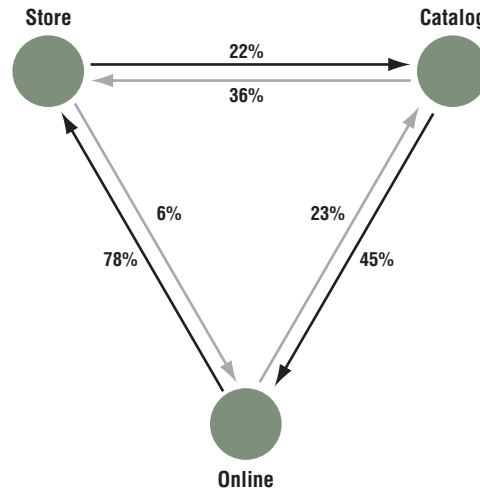
#### *Multi-channel retailing is fundamental to successful retailing*

In the few short years the Internet has been available to the mainstream public, consumers have embraced it for its convenience and ability to deliver extensive information about both products and retailers. At the same time, the traditional brick-and-mortar store remains the channel of choice for most shopping occasions and will likely stay that way for the foreseeable future. It affords consumers the ability to touch and examine products, obtain advice from sales associates, and get immediate gratification from purchasing.



Nonetheless, recent studies demonstrate how pervasive multi-channel shopping has become: According to research sponsored by Shop.org, an industry trade association, 78 percent of online shoppers also buy through a merchant's physical stores, and 45 percent of them also buy using the catalog channel (that is, using phone, mail or fax). Similarly, 23 percent of catalog shoppers also make purchases on the company's Web site. And while only 6 percent of store shoppers also make purchases on the company's Web site, that figure is undoubtedly growing (see Figure 2).

Figure 2. Incidence of cross-channel purchasing<sup>2</sup>



More significantly, consumers rely heavily on the Internet as a means of obtaining information about products and retailers, regardless of what channel they ultimately use to buy. Shop.org found that roughly half of catalog shoppers and nearly three-quarters of store shoppers preferred to conduct their prepurchase research online – even though the vast majority of both groups still viewed offline channels as the primary means of making purchases (see Figure 3).

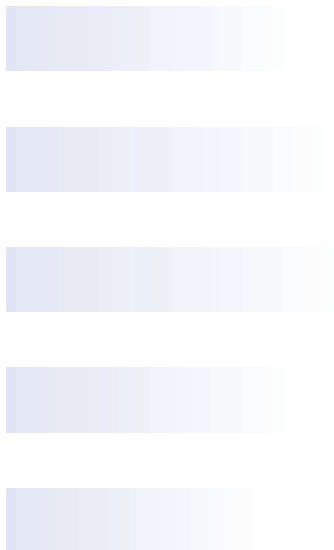


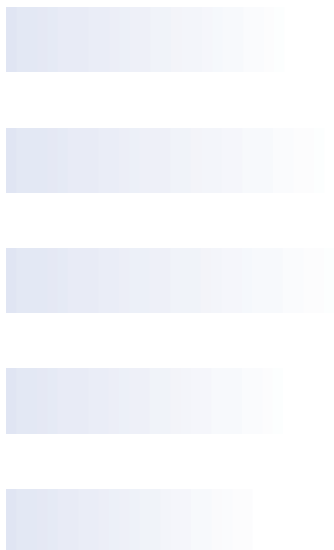
Figure 3. Channel preferences for different shopper groups<sup>3</sup>

	Online shoppers		Catalog shoppers		Store shoppers	
Research online	18%	55%	24%	25%	55%	18%
Research offline	12%	16%	37%	14%	23%	5%
	Buy offline	Buy online	Buy offline	Buy online	Buy offline	Buy online

Multi-channel consumers are also proving to be the most valuable within a retailer’s customer base, tending to spend more and be more loyal. The Shop.org study, based on over 48 000 interviews of shoppers in all channels, found compelling evidence of the value of multi-channel shoppers to retailers’ bottom line:

- Store shoppers who also buy online from the same retailer spend an average of US \$600 more annually in-store than typical store shoppers of that retailer.
- Tri-channel shoppers, who buy from a retailer’s store, online and catalog channels, purchase from a retailer’s store 70 percent more frequently than the average store customer and 110 percent more frequently from the retailer’s catalog.

With the importance and value of having a strong multi-channel retail strategy becoming increasingly clear, a key challenge facing retail executives is how to progress from the recent period of ad hoc innovation and experimentation to a more-deliberate, forward-looking approach.

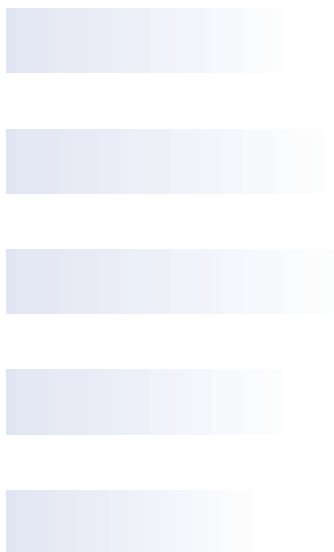


*Retailers will progress through three major stages of IMCR adoption*

How can retail executives assess their current state of multi-channel readiness? Where are current initiatives leading? What capabilities will be required in the future? To begin answering these important questions, it helps to have a roadmap that articulates what is required today and in the future. One approach, presented here, is to evaluate the current state of integration initiatives and assess future efforts by utilizing a Protect, Evolve, Transform (PET) framework:

- **Protect**—The first stage of IMCR focuses on maintaining competitive parity—making initial forays into the multi-channel marketplace and improving obvious deficiencies in the consumer’s shopping experience.
- **Evolve**—In the next phase, retailers can achieve significant incremental revenue and efficiency gains by making specific parts of their businesses (that is, individual business processes) considerably more customer-centric. The central challenge in this stage is to create an integrated cross-channel view of customer needs and patterns and to respond in a coordinated fashion along all customer touch points.
- **Transform**—Ultimately, the full potential of IMCR can be achieved when retailers are able to effectively employ deep insights about marketplace needs and preferences—of not only their existing customers but also potential customers they are seeking to acquire—to effect changes back through the entire extended enterprise value chain.

Taking this framework down a level, multi-channel initiatives at each stage share some common characteristics (*see Figure 4*), which retail executives can use to assess their progress and develop a long-term plan. For example, focusing on *sales and marketing*, have you successfully addressed the basic requirements of conducting commerce and providing good customer service in multiple channels? Are you effectively leveraging all means of generating awareness and driving the right “traffic” from one channel to another (e.g., URLs everywhere, store associates educating customers about the Web site, easy-to-use store locators on the site)?





Retailers that have mastered these “table stakes” initiatives are likely moving forward to the Evolve stage – developing the infrastructure and expertise needed to conduct promotional and cross-selling initiatives that successfully make use of cross-channel customer data. Firms should be exploring ways of measuring and improving lifetime customer value, rather than taking a transaction-by-transaction view. A key enabler of such programs is the creation of an integrated customer database – no small task in itself. Further down the road, the most-advanced competitors will Transform how they sell by harnessing that data at individual or household levels to drive automated channel activities based on sophisticated predictive modeling and other technology-enabled mechanisms.

Looking now at *process and organizational integration*, most retailers today are still in stage one: many key functions are managed separately by channel, and conflicting employee incentives across channels remain a thorny problem ... not to mention the challenge of determining ROI for multi-channel initiatives. For many retailers, some key functions, such as inventory management and merchandising, have already moved into the Evolve stage and are managed in a unified fashion to support all of their channels. A few progressive companies are also beginning to manage key processes from a true multi-channel perspective – for instance, by creating a corporate-wide customer relationship management (CRM) team that works across all lines of business. In the relatively near future, the most successful retailers will have transformed themselves by figuring out how to drive fact-based insights back into their core management processes in near realtime, making their organizations highly responsive to the shifting demands of the market.

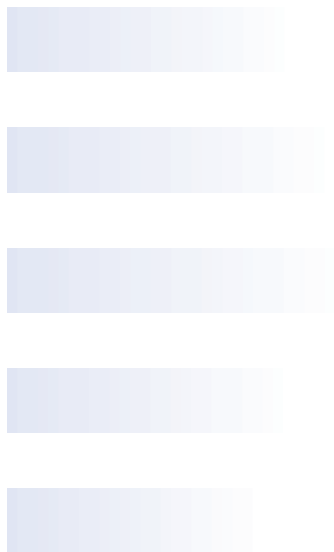


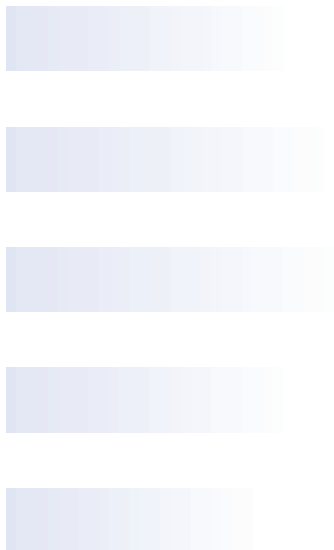
Figure 4. Characteristics of IMCR across three stages

	Protect	Evolve	Transform
<b>Strategic focus</b>	<ul style="list-style-type: none"> <li>• Maintain competitive parity</li> <li>• Defend existing revenue streams</li> </ul>	<ul style="list-style-type: none"> <li>• Significantly grow share of wallet and customer loyalty</li> <li>• Achieve large gains in efficiency and productivity</li> </ul>	<ul style="list-style-type: none"> <li>• Change the basis of industry competition</li> <li>• Create defensible, long-term competitive strengths</li> </ul>
<b>Sales and marketing</b>	<ul style="list-style-type: none"> <li>• Build basic multi-channel customer access and awareness</li> </ul>	<ul style="list-style-type: none"> <li>• Drive customized cross-sell, up-sell, and loyalty programs across channels</li> </ul>	<ul style="list-style-type: none"> <li>• Optimize individual/household-level marketing through predictive analysis and automated systems</li> </ul>
<b>Customer analytics</b>	<ul style="list-style-type: none"> <li>• Identify customers and collect transaction data in a single channel</li> </ul>	<ul style="list-style-type: none"> <li>• Understand and track customer behavior across channels</li> </ul>	<ul style="list-style-type: none"> <li>• Develop insights via integrated view of own customers <i>and</i> external market</li> </ul>
<b>Technology architecture</b>	<ul style="list-style-type: none"> <li>• Deploy new infrastructure and point solutions in individual channels</li> </ul>	<ul style="list-style-type: none"> <li>• Integrate “islands” of infrastructure and data</li> <li>• Build flexible systems across lines of business</li> </ul>	<ul style="list-style-type: none"> <li>• Leverage third-party technology/ e-business capabilities “on demand”</li> </ul>
<b>Process/org integration</b>	<ul style="list-style-type: none"> <li>• Manage functions within a given channel</li> <li>• Resolve conflicts in incentives and metrics</li> </ul>	<ul style="list-style-type: none"> <li>• Manage enterprise processes across all channels</li> </ul>	<ul style="list-style-type: none"> <li>• Drive marketplace insights all the way back through the enterprise value chain</li> </ul>

Source: IBM Institute for Business Value.

Mapping various aspects of multi-channel retailing initiatives across the PET framework illustrates where a retailer stands and what needs to be done to prepare for the future. Other key dimensions include overall *strategic focus*, sophistication of *customer and marketplace analytics*, and degree of flexibility and integration of the underlying *technology architecture*. You can also identify others at more-detailed, tactical levels if required.

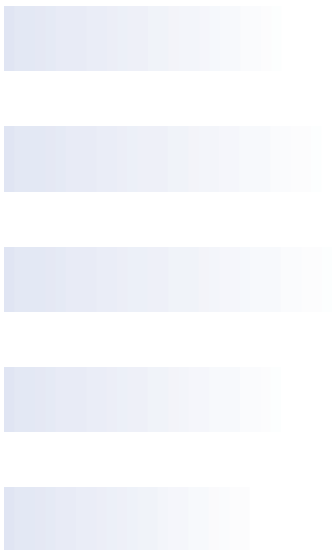
Although these dimensions are clearly interdependent, it is also important to realize that companies do not have to move through the stages in lockstep across all aspects of their operations. Many retailers are, in fact, at varying levels in their integration efforts, depending on what function or process is being considered. In some cases, retailers may be at the Protect stage in one part of their value chains, while moving forward with Evolve initiatives in other parts of their businesses.



For instance, Best Buy Co., Inc. operates distinct merchandising departments for its online and offline operations, offering a subset of its store merchandise online – characteristic of a Protect-stage approach. However, from a sales and customer service perspective, the company has begun a pilot program equipping its sales associates with PDAs, used to instantly access product information while assisting customers in the store – a more leading-edge, Evolve initiative.

In the case of Recreational Equipment Inc. (REI), its online division maintains separate merchandising and inventory management departments (the Protect stage). However, REI stores also provide real-time access to online inventory through in-store kiosks and Web-based POS systems (the Evolve stage). Across the board, retailers are looking at innovative ways to improve the customer experience and extend the reach of their various channels.

This view of multi-channel retail integration illustrates that it is not a single project that can be accomplished quickly, nor is it a process that is ever fully completed. Rather, retailers must recognize that integration needs to occur over time, adjusting to changes in the market, technology availability and customer expectations. In the end, the goal of multi-channel integration is to continuously enhance the customer experience through improved organizational collaboration and technological enablers.



### Implications

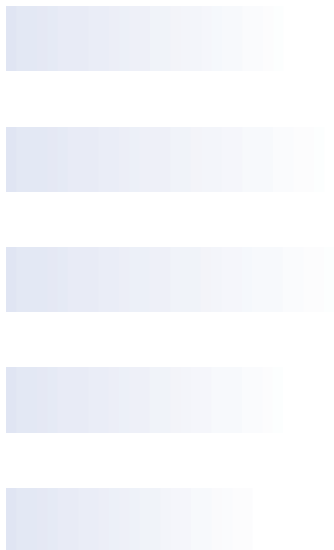
#### *Advanced customer analytics are the central challenge*

Retailers can significantly influence customer satisfaction and shopping behavior by clearly framing expectations and actively delivering what is promised. This process begins with an accurate understanding of continuously evolving customer needs. So, why are so few companies using customer data effectively? A number of difficult structural challenges are a large part of the problem:

- Lack of rich analytical tools to provide true insight into customer behavior
- Lack of automated processes that translate customer data and insights into actions
- Limited means to transfer intelligence gained from customer data across functional areas.

Although most retailers are drowning in transactional data about their customers, the real task is to transform that data into useful intelligence that can help drive business decisions. In the end, being “integrated” is not about being able to push consistent messages across all your channels. It’s about moving beyond traditional retail management methods so that you can identify demonstrable links and causal relationships between events in one channel and results in another.

Advances in the use of complex analytical techniques will be crucial to delivering improved channel efficiencies and consumer value and satisfaction. Near-term improvement requires migration from manual, single-event focused promotions, to automated, multi-variable analytics. Rather than concentrating on optimizing the next transaction, retailers need to focus on maximizing the economic value of customers across channels and over the customer’s lifetime. Customer-experience modeling, autonomic computing and probabilistic estimation are just a few of the tools that are showing strong potential to help retailers achieve these goals.

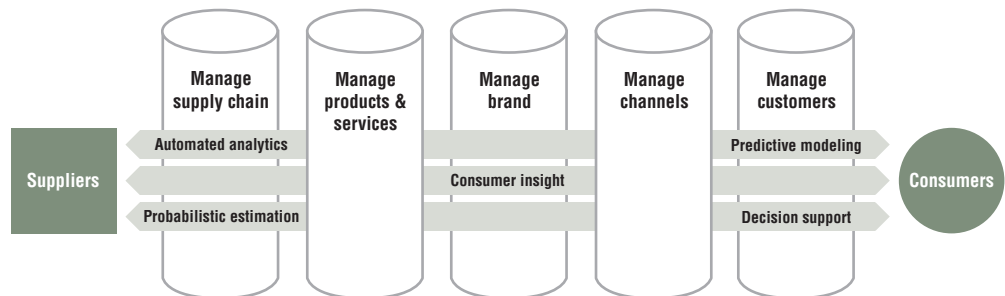


### *It's all about Systematic Intelligence*

The critical role that advanced customer analytics will play in the future multi-channel retail model raises an important point: over the long term, IMCR is fundamentally concerned with transforming the retail enterprise end-to-end. In many respects, true CRM (not just e-mail campaign management) and IMCR are so intertwined that it's difficult to tell which is a subset of the other, or whether they're simply the same thing. On another front, massive investments in Enterprise Resource Planning (ERP) systems have been made to give retail executives improved visibility and control over internal business operations. But their true power will be realized only when the knowledge locked in these systems is opened to applications facing consumers and external partners.

e-business is fundamentally about improving the utility of information in order to drive increased economic value. The ability to capture consumer information and integrate it with enterprise data to generate valuable inferences needs to become a retail core competency. Systematic Intelligence refers to this concept of leveraging data throughout the enterprise to automatically create valuable insights that improve business and customer value through enterprise processes. Viewed broadly, integrated multi-channel data can be harnessed to drive operational improvements throughout the retail value chain. Improved turnover, reduced inventory-carrying costs and lower distribution expenses can all complement the increased sales margin promised from IMCR (see Figure 5).

**Figure 5. Systematic Intelligence: Converting data into useable insights across the retail enterprise**



Source: IBM Institute for Business Value.

A forward-looking IT strategy is crucial to achieving these objectives. For instance, without a “delivery system” capable of empowering employees, from corporate to the store, retailers cannot fully utilize the information they’ve collected to improve organizational effectiveness and loyalty. Store POS systems must be managed not from a transaction-efficiency standpoint but with a service-effectiveness focus. Regardless of form factor, whether handheld, self-scanning or traditional, the POS systems of tomorrow must be capable of linking to many devices and applications, and must deliver insightful information to consumers and associates. Rather than focusing on maximizing the next transaction, the smarter POS mechanism will be a marketing and service-delivery tool, bent on optimizing customer lifetime value and consumer spend across channels.

### *Take a comprehensive view of IMCR*

As with many technology-intensive efforts, retailers struggle with multi-channel initiatives often because decisions are made in a vacuum – without sufficient regard to strategic, business process, organizational or technological issues. Retailers need to take both a *top-down* and a *bottom-up* view and ensure tight linkage between the customer experience, organizational processes and capabilities, and enabling technologies (see *Figure 6*):

- Customer-facing requirements drive the top-down perspective. What types of service outputs are demanded by different customers from each channel of interaction? What kinds of customer experiences is the company trying to create? What will it take to fulfill the promised consumer value proposition?
- Business-facing considerations drive the bottom-up view. How do we achieve our business and financial goals? How can asset productivity be maximized? What changes are required in the organization? What technology and skill gaps must be filled?

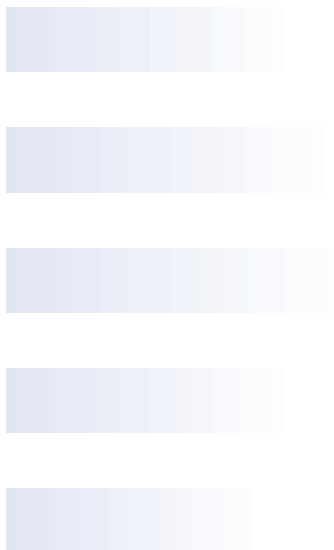
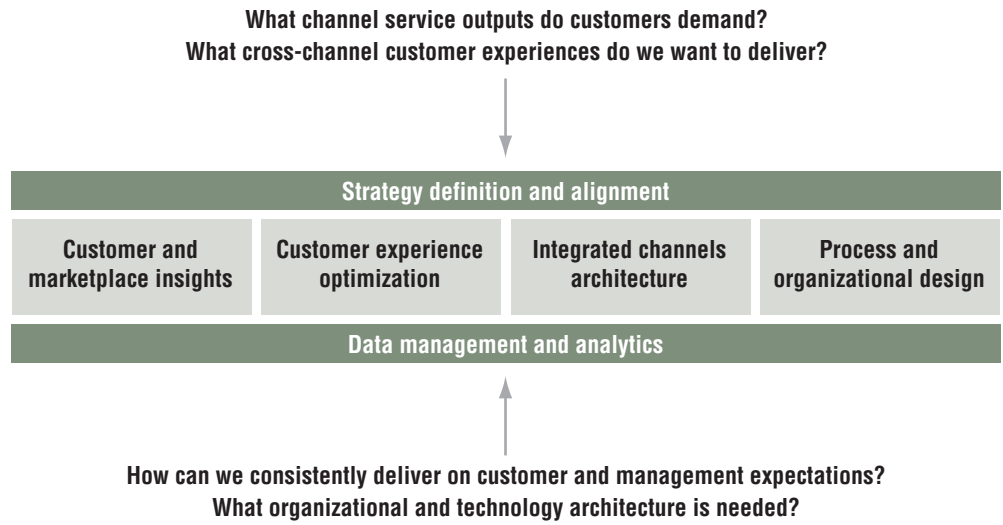


Figure 6. Holistic approach to integrated multi-channel retailing



Source: IBM Institute for Business Value.

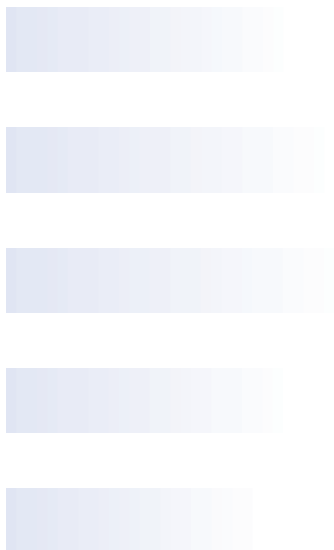
### Moving forward

The key for retailers is to marry the top-down and bottom-up perspectives with equal weight—too many companies focus excessively on internal capabilities and constraints, seeking to optimize their operations rather than add value to the consumer. Addressing the key linkages in a holistic way is a critical success factor in delivering on the promise of IMCR. A comprehensive approach should address the following issues:

**Strategy definition and alignment**—Determine what you want to achieve first. How aligned are your business and IT strategies? Agree on the process and criteria you will use to prioritize possible initiatives and make investment decisions. For example, potential integration efforts could be prioritized based on their expected impact to the organization and their difficulty in terms of implementation. Identify measurable results against which you can track progress. Are incentives for employees and managers across different channels and functions aligned? Will they encourage the desired behavior?

**Customer and marketplace insights**—Ensure that you have an up-to-date understanding of the preferences and profitability of your key customer segments (which is crucial to prioritizing investments). Understand not just what they buy and who they are, but also why they buy. Learning attractive traits of highly profitable customers allows retailers to identify mid-range customers exhibiting high value potential. Market research and segmentation analysis should be conducted on not only your own customer and transaction data but also on the addressable market at large—otherwise, you might overlook the needs of *potential* customers.

**Customer experience optimization**—Develop a strong understanding of how customers move through the buying cycle. Where are the existing pain points from customer, employee and business perspectives? Based on the customer insights developed above, take steps to offer the choices and services that your target customers deem important in any given channel. Do they want knowledgeable sales help, or easy self-service? The answer might vary by channel and product category.



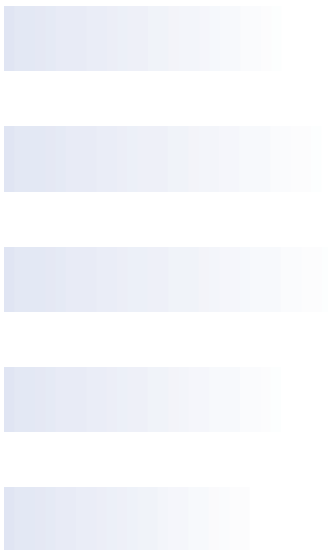


**Integrated channels architecture** – Deploy the systems needed to deliver ideal customer experiences and to empower your employees. Build the necessary linkages between point systems. Evaluate legacy systems’ ability to meet future needs, and identify gaps and alternatives. How easily will new systems integrate with existing infrastructure? How can you avoid creating new “islands” of data?

**Process and organizational design** – Evaluate business-process impacts in tandem with IT planning. How must processes, organizational structure and employee skills be changed to deliver ideal customer experiences? What initial steps can you take? Ensure that you have an effective governance model in place. As decisions increasingly affect teams across departments, lines of business and channels, how will inevitable conflicts be resolved? What changes are needed to move the organization from a short-term, product-focused orientation to an emphasis on lifetime customer value?

**Data management and analytics** – Continue (or begin) building a unified data warehouse that gathers critical customer information generated from all your channels of interaction; or, at the very least, develop the capability to run analytics and obtain an integrated view across your multiple data repositories. Experiment with advanced analytical applications that move beyond today’s single-channel, single-event packages towards the future of cross-channel, predictive loyalty modeling.

Integrated multi-channel retailing is clearly not a technology module that you can just drop in. Rather, it is a strategic, evolutionary path that retailers must follow to maintain their competitiveness in the short term and build defensible competitive advantage over the long term. This path can lead to stellar customer relationships and dramatically improved operational effectiveness – derived from consumer dialogue, advanced data analytics and infrastructure integration. To avoid getting lost along the way, retail executives need to have a clear roadmap that helps them maintain tight linkage between customer strategy, organization capabilities and technology.



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