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Successful service retail channel expansions: The roles of technical and brand integration☆

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ABSTRACT

Service retail channel (SRC) expansion is common in B2B markets, but expansions into high-tech channels involve substantial market failure risks. Successful expansions create questions about the best way to integrate new and existing channels. Should the firm use its existing brand to market the new channel, or should it develop a new brand? Should the technology for the new channel be developed in-house or outsourced? The level of integration of both marketing and technical assets determines the perceived consumer benefits and market acceptance of high-tech SRCs. Using the concepts of risk, resources, and control, this study proposes a theoretical framework, tested with data about Internet banking in the United States. The results show that integration decisions have important, counterintuitive consequences. Specifically technical integration leads to higher perceived consumer benefits and thus greater market acceptance, whereas brand integration lowers the market acceptance of a new SRC.

1. Introduction

Channel expansions in service retailing are crucial to the growth of both firms and sectors in knowledge economies (e.g., Matouskova & Czesana, 2011). The use of multiple channels has become the norm in business-to-business (B2B) markets (Rosenbloom, 2007; Sharma & Mehrotra, 2007), where firms have progressed from offline to catalog to high-tech channels (e.g., call centers, websites, mobile phones) (Friedman & Furey, 1999). Expanding into high-tech service retail channels (SRCs) involves the use of substantially new technology and marketing assets to enhance service delivery and provide greater consumer benefits, compared with existing channels (Chandy, Prabhu, & Antia, 2003). In the banking sector, high-tech SRCs such as ATMs and Internet and mobile banking have greatly enhanced the service delivery available, beyond that provided by bank branches or telephone banking. Similarly, across broad sectors of the economy—including services, manufacturing, communications, and trade—the creation of new Internet channels provides substantial consumer benefits in B2B markets (Geyskens, Gielens, & Dekimpe, 2002; Pires & Aisbett, 2003), such as the e-marketplaces now available for metals (e.g., metalbids.com), automobiles (e.g., automotive-online.com), or life sciences (e.g., SciQuest.com) (Dai & Kauffman, 2002).

However, firms involved in SRC expansion experience substantial heterogeneity in market responses. When First Union bank introduced Internet banking in 1997, it registered 1 million customers within four years; PNC Bank had a mere 30,000 customers registered by 2001 despite having introduced Internet banking in 1996 (Thomson Directory of Internet Banks, 2001). According to Meuter, Bitner, Ostrom, and Brown (2005), IBM shifted 99 million of its service telephone calls to the Internet, but another unnamed firm experienced poor customer adoption of the Internet channel, resulting in a $16 million loss. In case of high-tech channels across industries, of the 1800 B2B e-marketplaces that existed globally in 2001, only a few hundred managed to survive and grow (Laseter, Long, & Capers, 2001). As these examples indicate, substantial heterogeneity marks the outcomes of high-tech SRC innovations across firms.

To succeed, firms appear to need at least two types of assets, technological and marketing (Dutta, Narasimhan, & Rajiv, 1999), and must make critical integration decisions (Rosenbloom, 2007) regarding whether to integrate (Merriam-Webster, 2003) the new technology and marketing assets used for a SRC innovation with existing assets. Romac International, a leading corporate recruiting firm, chose not to integrate brand assets accrued for its online venture with its existing assets but rather to develop a new brand name (kforce.com) for its online recruiting website. For its technical assets, Romac instead integrated by developing the technology for its online venture in-house. Conversely, PNC Bank integrated its online transactional banking service with its existing brand (Thomson Directory of Internet Banks, 2001) but did not integrate the technical assets, sourcing them instead from external vendors (Online Banking Report, 2000).

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Firms' integration decisions in turn have long-lasting implications for the success of their new SRCs (Gulati & Garino, 2000). Extensive research considers the SRC innovation and consumer level factors affecting its market acceptance (Curran & Meuter, 2005; Dabholkar & Bagozzi, 2002; Hewer & Howcroft, 1999; Looney, Akbulut, & Poston, 2008; Meuter et al., 2005), but few studies address the implications of firm-level integration decisions for market acceptance of an SRC innovation. B2B scholars highlight the integration of high-tech channels with conventional channels as a critical challenge facing multichannel managers (Rosenbloom, 2007). By investigating the integration of new technical and brand assets for high-tech channels, we address calls to study the joint effects of technical and marketing assets on innovation success (Tellis, 2008), especially in a B2B setting (O'Cass & Ngo, 2012), and seek to answer a central research question: What performance implications do technical and brand integration between a new high-tech SRC and conventional channels have, in terms of both perceived consumer benefits and market acceptance of the new channel?

By addressing this question, we offer two key contributions to extant literature. First, we address the issue of branding in the context of new high-tech SRCs. Brand decisions largely determine whether and how a channel innovation gets marketed. Fears of brand dilution can dampen high-tech channel innovation, which is inherently risky, and innovation failures can sully a carefully nurtured brand image (Milberg, Park, & McCarthy, 1997; Roedder John, Loken, & Joiner, 1998). As an IBM manager we interviewed cautioned, "You didn't want to be the guy who got somebody fired for buying IBM." But powerful brands also help reassure apprehensive customers and offer valuable visibility for an innovation, so they can enable success as well. Yet branding research (Keller & Lehmann, 2006) rarely extends to the B2B domain, even as empirical research confirms that brand equity matters in B2B service contexts (Davis, Golicic, & Marquardt, 2008). To investigate the potential for leveraging brand equity through brand integration, we explore the performance implications of brand integration decisions and determine whether it is better to create a new brand or use an existing brand to encourage consumer adoption of a new SRC.

Second, we study technology outsourcing as it relates to new, high-tech SRCs. In this context, firms must decide whether to develop the core technology needed for the new channel in-house or source it from external entities. Firms that outsource the development of high-tech SRCs may lose control over their new channel and have difficulty differentiating their service from those of competitors. But internal development is expensive and risky. The consequences of these decisions have not been fully explored (Varadarajan, 2009), though recent B2B service research attempts to integrate different theoretical lenses into a framework for linking outsourcing to firm performance (Kotabe, Mol, & Murray, 2008; Lee & Kim, 2010). Because high-tech SRC innovation creates technological and market uncertainty, and market responses in uncertain environments requires further study (Eng & Quaia, 2009), we test whether it is better to develop the core technology needed for a new high-tech SRC in-house or to outsource when seeking superior perceived consumer benefits and greater market acceptance.

We test our arguments using data from the U.S. retail banking industry. We track this industry between 1995 and 2001 to observe how the development of technical and brand assets needed for a single, important SRC—Internet banking—affected the extent of perceived consumer benefits delivered and market acceptance of the SRC. Drawing on multiple archival sources to develop our database, we derive a representative sample of 305 retail banks that offered basic, transactional, Internet banking services (e.g., account access, fund transfers, electronic bill payments) by the end of 2000. In the next section, we thus define our key variables and develop the framework that guides our research. After we present our three hypotheses about the implications of integration decisions for performance in the longer term, we describe our research context and method. The concluding sections present the results and implications of our findings for both research and practice.

2. Theoretical background and hypotheses

2.1. Definitions and conceptual overview

Building on prior research pertaining to high-tech innovation, we develop variable definitions that reflect the specific context of service channel innovation. We define *high-tech service retail channel (SRC) innovation* as the use of substantially new technology and marketing assets to enhance service delivery and provide greater consumer benefits than offered by existing channels (Chandy, et. al. 2003). *Technical integration* refers to the extent to which a firm uses in-house technology resources, rather than outsourced ones, to develop a new high-tech SRC (Levina & Ross, 2003; Teece, 1986). We define *brand integration* as the extent to which a firm uses its existing brand, rather than a modified version or even a new brand, to name its high-tech SRC innovation (Keller & Lehmann, 2006). Then *perceived consumer benefits* are consumer perceptions of the extent of beneficial services in addition to the basic services delivered by the new high-tech SRC (Jun & Cai, 2001). This definition takes into account technological and service-level performance, by evaluating the emergent technology's ability to deliver multiple, beneficial services. Finally, *market acceptance* is the extent to which consumers adopt a new high-tech SRC (Mahajan, Muller, & Bass, 1990).

We build our theoretical framework on the basis of three main characteristics of channel expansion: risk, resources, and control. First, SRC innovations are *risky* when they involve both technological and market uncertainty. Consumers might not adopt a high-tech SRC if they do not find significant benefits in using it rather than existing channels (Curran & Meuter, 2005). For example, despite heavy marketing of interactive television banking services, launched in late 1999 by large TV service providers like BSkyB in the United Kingdom, Canal Plus in France, and NetTV in the United States (Bloom, 1996; Johnson, 1998), consumer adoption of this channel remains insignificant. Consumers also might view the new channel as threatening, if the underlying technology appears relatively untested and the likelihood of failure seems significant. Security issues associated with using mobile technology to conduct financial transactions have slowed the adoption of emerging mobile banking channels (eMarketer, 2013; MarketScope, 2012). The risk of failure also entails a potential inability to deliver on expected consumer benefits. When its web-based enterprise resource planning system failed to deliver expected supply chain management abilities, Hewlett-Packard lost an estimated $160 million (Chaturvedi & Gupta, 2005).

Second, SRC innovations require substantial *resources* (Chandy et al., 2003). Rockwell Automation, a market leader in industrial automation solutions, spent $50 million on its ill-fated e-marketplace (SourceAlliance.com) in an effort to complement its network of local distributors and counter stiff competition from national distributors (Sawhney et al., 2004). These resources are in addition to those required to maintain the firm's existing operations, and few firms have such significant additional resources to allocate to the pursuit of new channels.

Third, to obtain competitive advantages from its SRC innovations, the firm needs *control* over the rent-producing assets used to develop and market them (Huber, 1993). Thus IBM's inability to leverage a competitive advantage in the PC market was due in part to its lack of control over the key information technology that goes into a PC. Conversely, Intel and Microsoft gained control over microprocessor and operating system technologies, yielding them substantial competitive advantages in this market.

We thus use the concepts of risk, resources, and control to develop hypotheses about technical and brand integration decisions in the context of high-tech SRC expansion. With this theoretical approach, we can consider the role of firm resources in conjunction with the external environment, as advocated previously by scholars (Priem & Butler, 2001), and thus combine the resource-based view of the firm (Barney, 2001) with the environmental insights of transaction cost economics (Williamson, 1985) to determine the performance implications of technical and brand integration decisions.