Available online at www.sciencedirect.com
ScienceDirect
Journal of Interactive Marketing 24 (2010) 168 – 180
JOURNAL OF INTERACTIVE MARKETING
www.elsevier.com/locate/intmar

Crafting Integrated Multichannel Retailing Strategies

Jie Zhang,[a,*] Paul W. Farris,[b] John W. Irvin,[c] Tarun Kushwaha,[d] Thomas J. Steenburgh[e] & Barton A. Weitz[f]

[a] Robert H. Smith School of Business, University of Maryland, 3311 Van Munching Hall, College Park, MD 20742, USA
[b] Darden Graduate School of Business Administration, University of Virginia, P.O. Box 6550, Charlottesville, VA 22906-6550, USA
[c] J. C. Penney Company, Inc., 6501 Legacy Drive, Plano, TX 75024, USA
[d] Kenan-Flagler Business School, University of North Carolina at Chapel Hill, Campus Box 3490, McColl Building, Chapel Hill, NC 27599-3490, USA
[e] Harvard Business School, Soldiers Field, Boston, MA 02163, USA
[f] Warrington College of Business Administration, University of Florida, P.O. Box 117153, Gainesville, FL 32611, USA

Abstract

Multichannel retailing is the set of activities involved in selling merchandise or services to consumers through more than one channel. Multichannel retailers dominate today's retail landscape. While there are many benefits of operating multiple channels, these retailers also face many challenges. In this article, we discuss the key issues concerning multichannel retailing, including the motivations and constraints of going multichannel, the challenges of crafting multichannel retailing strategies and opportunities for creating synergies across channels, key retail mix decisions facing multichannel retailers, and the dynamics of multichannel retailing. We synthesize current knowledge drawn from the academic literature and industry practice, and discuss potential directions for future research.

Keywords: Retail strategy; Cross-channel synergy; Retail mix decision; Channel format; Consumer behavior; Internet retailing

Introduction

Multichannel retailing is the set of activities involved in *selling* merchandise or services to consumers through more than one channel (Levy and Weitz 2009). This definition distinguishes multichannel retailing from multimedia marketing that typically involves the use of multiple channels to simply communicate with customers. While prior work examines multichannel marketing in general (e.g., Neslin et al. 2006; Neslin and Shankar 2009), the focus of this article is multichannel retailing. Multichannel retailers are firms that engage in multichannel retailing and whose primary source of revenue is retailing activities. We focus on merchandise rather than service retailing, because the product management and delivery issues are significantly simpler for service retailing (such as travel, entertainment, and information) where transactions can be completed electronically and thus inspection, storage, and transportation of physical products is not necessary to complete a sale.

Several unique aspects of the retailing business make multichannel operations more complex and challenging. In general, retailers have to manage a large number of stock-keeping units (SKUs) in their assortment of products (usually not manufactured by the firm), make decisions and frequent modifications on many retail mix elements for each SKU, interact with numerous and often diverse groups of end users, deal with a large number of vendors, and be responsible for the logistic process of selling and delivering products to their end users. In addition to the operational complexities, the potential benefits afforded to customers are also significantly greater, as we will discuss, than simply using multiple channels to communicate with customers (Metters and Walton 2007; Agatz, Fleischmann, and van Nunen 2008). These factors call for a comprehensive review of issues concerning multichannel retailing and research development on these topics, which we provide in this article.

Multichannel retailing is not a new phenomenon, and a retailer can start from any one channel and move to other

* Corresponding author.
E-mail addresses: jiejie@rhsmith.umd.edu (J. Zhang), FarrisP@darden.virginia.edu (P.W. Farris), tarun_kushwaha@unc.edu (T. Kushwaha), tsteenburgh@hbs.edu (T.J. Steenburgh), bart.weitz@cba.ufl.edu (B.A. Weitz).

1094-9968/$ - see front matter © 2010 Direct Marketing Educational Foundation, Inc. Published by Elsevier Inc. All rights reserved.
doi:10.1016/j.intmar.2010.02.002

channels later. For example, Sears became a multichannel retailer in 1925 when it opened its first store to complement its catalog channel which was launched in 1886 (Sears 2009). Eddie Bauer and Spiegel's also started as catalog retailers and expanded to store operations later. Television shopping retailers HSN and QVC now have Internet channels. Nonetheless, while many retailers followed Sears' lead selling merchandise through both store and non-store (catalog, direct marketing) channels, these channels mainly operated as separate businesses and were not integrated. To a large extent, the emergence of integrated multichannel retailing was driven by the rapid expansion of the Internet as a new selling channel. In the mid-1990's, the Internet was viewed as a disruptive transformational technology (Christensen, Anthony, and Roth 1994) with respect to the retail industry. Futurists envisioned consumers abandoning stores and buying most products and services over the Internet. They predicted that store-based retailers would be replaced by Internet-savvy entrepreneurs who could harness this new technology to provide superior offerings to consumers (Zwass 1996).

Fifteen years later, the Internet appears to be more of a facilitating technology in many domains, enabling traditional store-based retailers to complement their store offering with online channels, to improve their operational efficiency, and to enhance the benefits provided to customers. These traditional retailers have evolved into multichannel operators, and they now dominate the Internet retailing space. More than 80% of a broad cross-section of U.S. retailers indicated that they sell merchandise through multiple channels. In a recent benchmark study, all of the large retailers and 94% of the "winners" (defined as the retailers with the best financial performance) were multichannel operators (Kilcourse and Rowen 2008).

Retail organizations are facing many new challenges and opportunities in the multichannel retailing environment. There are also many questions to be answered by marketing researchers and industry practitioners. What motivates retailers to go multichannel and what constraints are holding them back? What are the major challenges in crafting multichannel retailing strategies and opportunities to create synergy across channels? What do multichannel retailers need to take into consideration for their retail mix decisions? And how will multichannel retailing evolve over time? In this article, we provide a broad discussion on these issues.

The rest of the article is organized as follows. In each subsequent section, we synthesize current knowledge based on the academic literature as well as industry practices, and discuss potential directions for future research. We conclude by summarizing the key topics for future research and by providing our predictions on some of the issues.

Motivations and constraints for going multichannel

In this section we review the main motivations for retailers to operate multiple channels and the common constraints that have prevented some from doing so.

Motivations for retailers to operate multiple channels

Ultimately, the search for improved financial performance motivates traditional single-channel retailers—store-based, catalog, TV home shopping, or Internet-based retailers—to evolve into multichannel operators. While the decision to sell through additional channels prompts concerns about cannibalization and negative spillover (Deleersnyder et al. 2002; Falk et al. 2007), research indicates that operating multiple channels can have a positive effect on financial performance (Geyskens, Gielens, and Dekimpe 2002). Some sources of the improved financial performance for multichannel retailers are: (1) low-cost access to new markets, (2) increased customer satisfaction and loyalty, and (3) creation of a strategic advantage.

Access to new markets

The market for store-based retailers is typically limited to the local trading areas of their stores. Thus, adding non-store channels (e.g. Internet, catalogs, mobile phones) enables retailers with limited locations to exploit economies of scope by expanding their markets without building additional stores.

In addition, researchers have segmented the retail market by channel choice, either store only, Internet only, or multichannel, and found that there is a growing segment of multichannel shoppers—consumers for whom a multichannel offering is particularly appealing (i.e. Kushwaha and Shankar 2007a).[1] There is substantial empirical evidence that multichannel consumers are an attractive market. On average, they spend more and have a higher lifetime value than single-channel consumers (Neslin and Shankar 2009). These consumers utilize multiple channels because the channels are differentially effective at satisfying their shopping needs (Konus, Verhoef, and Neslin 2008). With the rapid growth of Internet shopping, most consumers will become multichannel shoppers eventually, which means that segmentation based on channel choice may not be very useful in the future. More research is needed to identify the best segmentation scheme for multichannel retailers. We believe that segmentation schemes based on the effects on the consumer decision process of channel-specific activities and the benefits sought on specific occasions might provide more insights.

Customer satisfaction and loyalty

By using a combination of channels, retailers can better satisfy their customers' needs by exploiting the benefits and overcoming the deficiencies of each channel. For example, the store channel provides certain unique benefits, including: the potential to use all five senses when evaluating products, personal service, the option of cash payment, entertainment and social experiences, and immediate acquisition. However, to realize these benefits, consumers need to spend time and energy

[1] In most research (e.g. Rangaswamy and van Bruggen 2005; Neslin et al. 2006; Neslin and Shankar 2009), multichannel shoppers are defined as consumers who use multiple channels in the shopping process rather than consumers who buy products and services through multiple channels.