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Realizing the Multichannel Promise

THE BOSTON CONSULTING GROUP

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Companies that sell goods and services to consumers—including packaged-goods manufacturers, retailers, banks, and telecommunications providers—have jumped on the multichannel bandwagon in search of cost efficiencies and higher profits. For many companies, however, these rewards have yet to materialize. Meanwhile, customers are lining up with grievances about everything from products ordered on a Web site that can't be exchanged in a store to telephone sales representatives who can't explain online promotions.

They aren't the only ones complaining. Businesses bemoan the complexity of operating in a multichannel environment and the escalating costs of doing so. There are a number of reasons why they run into trouble:

- They neglect to align their multichannel goals with their business strategy
- They don't focus sufficiently on the internal organizational and cultural issues
- They overestimate technological obstacles and overlook simple solutions

These are very common mistakes. But with a little planning and a relatively modest investment, most companies can greatly improve their multichannel value proposition. What's more, they should do so soon. With the need for cost savings becoming increasingly urgent and the expectations of multichannel consumers continuing to rise, businesses could lose valuable customers to competitors that offer a better consumer experience.

The advance of Web-enabled devices, such as PDAs and mobile phones, raises the stakes by creating ubiquitous access to online sites and even enabling customers to use two channels at once (downloading a Web competitor's price, for instance, while shopping in a physical store). Fortunately, the current downturn may offer a "burning platform" for convincing companies to make tough decisions and changes.

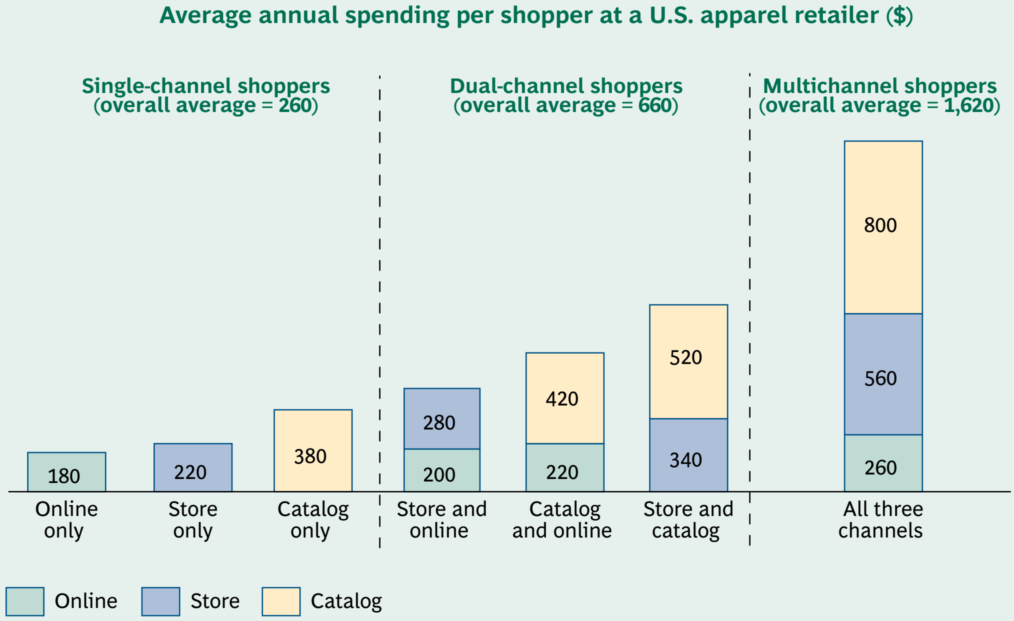
The Multichannel Mandate

Companies can't afford to settle for anything less than the full range of competitive advantages that multiple channels can bring—including the opportunity to create avenues for growth when the ability to add stores or branches is limited and the costs of acquiring new customers are high. And since most consumers want the option of using more than one channel, strong multichannel players can specifically target and win customers currently served by single-channel competitors.

In retail businesses, for example, companies are discovering that the more channels a customer shops in, the more profitable the customer tends to be. Multichannel customers generally spend more, and they can be served in more cost-effective ways. (See Exhibit 1.) Having multiple channels also allows retailers to serve customers on a wider variety of spending occasions. And because back-office processes can be shared, retailers can more readily identify the most profitable customers by measuring relative customer value and shopping patterns across different channels. The impact on sales can be considerable—an analysis by The Boston Consulting Group showed that best-practice multichannel retailers had measurably higher sales growth than the retail market average in both the United States and Europe. (See Exhibit 2.)

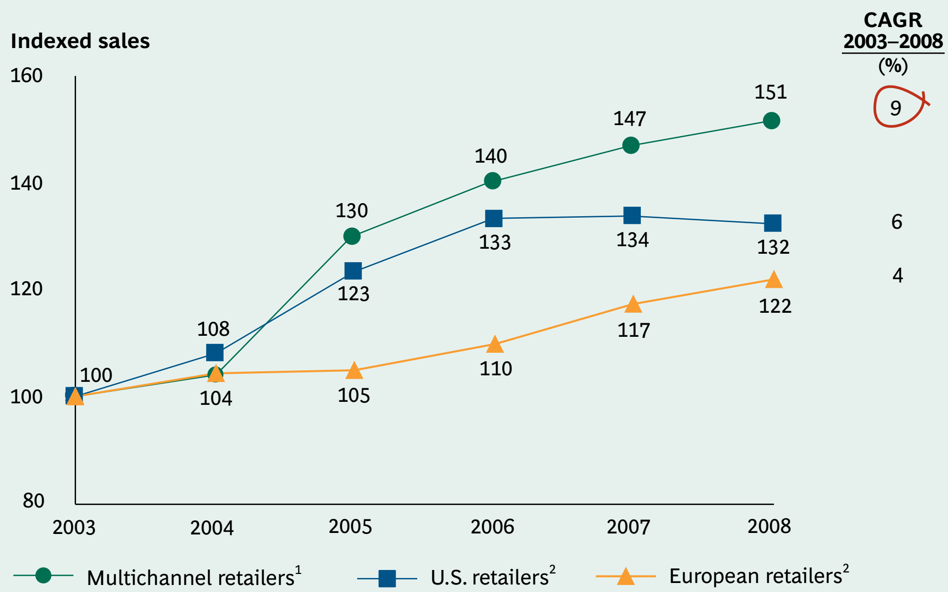
So why aren't more companies realizing these advantages? It turns out

Exhibit 1. Multichannel Customers Spend Significantly More



Sources: Forrester Research; company annual reports; BCG analysis.

Exhibit 2. Multichannel Retailers Outperform the Retail Average



Sources: BCG ValueScience Center; company annual reports; BCG analysis.
[1]Consists of best-practice multichannel retailers in the United States and Europe (France, Germany, and the United Kingdom).
[2]Includes both single-channel and multichannel retailers; average sales of all multiline, apparel, home, electronics, and specialty stores with revenues exceeding $500 million for U.S. retailers and €200 million for European retailers (France, Germany, and the United Kingdom).

that many of the obstacles managers are encountering stem from the initial transition to a multichannel environment. When they first introduce multiple channels, companies often fail to anticipate how customers will respond to the multichannel opportunity and how the internal organization will respond to the challenge.

Contrary to what most companies assume, customers given a choice of channels don't pick one or another. Instead, they expect to be able to transact in all channels seamlessly. By not preparing for this outcome, many companies overlook the importance of channel integration, the result being many of the customer complaints heard today.

When banks went to multiple channels, for example, many of them continued to focus primarily on the branch experience and viewed the other channels as lower-cost add-ons suitable only for limited services. And because integrating channels seemed to be such an overwhelming challenge, many banks were forced to maintain high-cost branch operations *and* create a new infrastructure for online and telephone transactions.

Meanwhile, some retailers established an online channel as a completely separate business in order to quickly grow outside the corporate structure—only to find themselves with yet another counterproductive silo. This often led to a shopping experience and product assortment disconnected from the physical store, which frustrated consumers who wanted to use the Web site to research product price and availability before making a purchase. It also meant disappointing customers who came into the store expecting to purchase a product they had seen on the Web site—only to find that it wasn't in the store or that it was being sold for a higher price.

Customers expect to be able to transact in all channels seamlessly.

Getting Multichannel Right

To realize the advantages that a truly integrated multichannel environment offers, businesses must focus not just on costs but also on determining which channels, products, and services will best suit each customer segment. They should be asking the following questions:

- What are we trying to achieve with multiple channels?
- How far can we extend or alter our service and product offering in a multichannel environment?
- How will extending our products and services affect the rest of the company and our brands?
- Do we expect different customers in each channel or the same customers in all of them?
- Do we want customers to have a consistent experience across channels or a different experience in each one? If different, is it clear to the customer why the experience is different?

Implementing the approach that arises from answering these questions will involve three key drivers of a successful multichannel business: strategy, organization, and technology.

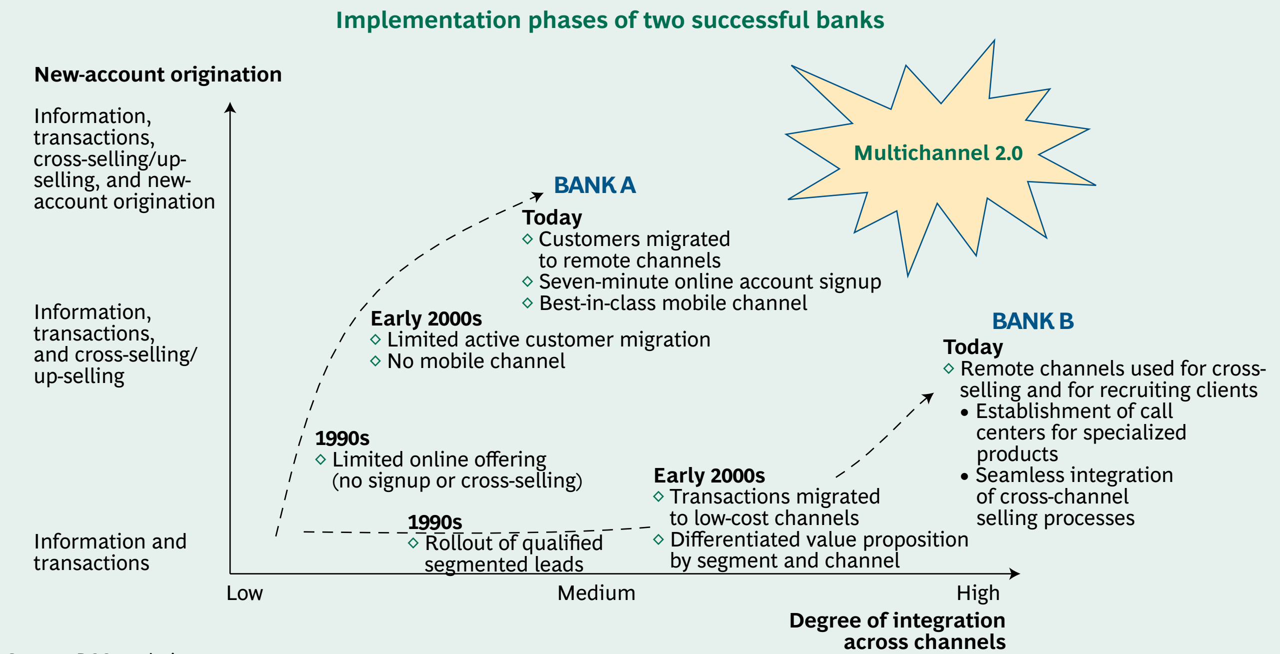
Strategic Alignment. The first step in realizing the full multichannel opportunity is to align the company's business strategy with its multichannel approach. Managers may think they have already done this when, in fact, they have merely developed each channel separately and incrementally.

There is no one "right" strategy for every business. What matters most is that businesses have a well-planned strategy and that the organizational processes are aligned to support it. Two banks provide examples of successful but different approaches. (See Exhibit 3.)

Bank A's approach has been to target and win the Web-focused customer segment through best-in-class online channel capabilities. It is explicitly driving online penetration as a core strategy. The bank has invested significantly in this channel and has become a market leader in terms of the number of customers who bank and pay bills online and over their mobile phones. These customers have greater access to and control of their finances, thus strengthening their ties to the bank.

In contrast, Bank B has taken a different approach. Starting from a position of strong branch coverage, this bank's strategy has been to deepen its relationships with current mass-affluent customers by integrating its phone and online channels to fill specific roles for customer needs. It makes all channels available to all

Exhibit 3. There's More Than One Path to a Multichannel Advantage



Source: BCG analysis.

customers, but each channel has a distinct role and a target customer profile. The objective is to align its value proposition and cost to serve with the potential value of the customer. For instance, the bank serves high-value customers with skilled, designated relationship managers at its branches and provides specialized saving services online, while directing lower-value customers to generalists or other channels. The bank has extensive customer-relationship-management (CRM) capabilities, which allow it to reach and serve customers through the most efficient channel. Thus, branches focus on higher-value product sales and value-added services, while call centers handle incoming requests, arrange appointments, and close simple, lower-value sales. The Web is reserved for the provision of both marketing and transactional information; it is also used in some sales to current customers and plays a growing role in client recruitment.

Another example of good strategic alignment comes from a European insurance company that had a clear strategic objective for its multichannel offering: to enhance its customer relationships. It had discovered that 70 percent of insurance customers have less than one interaction with their insurers per year. To enrich its contacts, it established a Web site dedicated to making products easier to understand and increasing the quality of service (less bureaucratic, more transparent), thus reinforcing the customer's affiliation with the brand. The online channel also provided a way to acquire new customers and cross-sell products, as well as to support agents and brokers with needed information.

Once a company's multichannel strategy is well understood by and carefully aligned among all stakeholders, the next step is to decide what kind of organizational structures, responsibilities, and incentives will be needed to ensure that the strategy is executed smoothly.

The Organizational Component. When they first add channels to their business models, many companies simply transfer old ways of operating into the new environment. Every channel thus becomes an independent silo, competing with other channels for the same business and failing to capture scale economies. For instance, in a series of interviews we conducted with retail executives, more than half revealed that their inventory and order-management systems were not integrated across channels. More than a third said that merchandising was organized by channel rather than by category. And the same proportion reported that customer data were not shared because the company's dominant channels tended to fear cannibalization by the other channels.

Shifting sales from physical outlets to online and telecommunications channels often threatens jobs and creates distrust. Consider this example from a telecommunications mobile-handset company, which had more than 1,000 outlets and kiosks. Transacting more orders online meant both reduced costs and the need for fewer stores, but retail-division executives mounted strong resistance, citing the potential loss of market share. That resistance won a temporary reprieve for employees, but the company failed to promote its Web option as aggressively as it might have, and the anticipated cost savings never materialized.

The company's principal competitor, meanwhile, went out of its way to promote its own online offering by providing access in its stores to the company's extended online catalog for handsets (300 choices instead of the 80 typically carried in the store) along with next-day delivery. It also allowed online customers to pick up their orders at the store and receive help with the initial setup. To give sales managers in the stores an incentive to move some of their sales online, the company guaranteed them commissions for online sales within a specified distance from their store.

Many multichannel initiatives have failed for lack of the right organizational alignment and incentives to encourage channels to work together. At one big-box retailer, the in-store sales teams actively competed against the company's own Web site (with the support of store management) until the company began giving them credit for online purchases. In some extreme cases, store sales associates would send customers to competitors' stores before they would send them to their own company's Web site. On the other side of the battle line, online teams would focus all their efforts on driving online sales, even for categories in which customers preferred to research online and purchase in the store.

Many initiatives have failed for lack of the right organizational alignment.

By putting the right metrics and organizational structure in place, the retailer was able to end these internecine wars and establish a virtuous cycle of mutual support, whereby store associates directed customers to the Web site for items the store didn't carry, and the Web site directed customers to the store for other purchase occasions. One specific improvement was to align the merchandising organization around the company's products so that both store and online SKU selections were "owned" by the same person. Another was to measure the return from online advertising and search-engine marketing against total sales across channels, rather than just for the online site, and to allocate budgets accordingly.

Realizing the multichannel promise will require the following:

- Clear ownership of a well-defined multichannel strategy that details how all channels will work together
- A high-level investment process to ensure that each channel is given sufficient support to fulfill the strategic vision
- Strong links and connections between and across channels
- Clear alignment on the role of each channel—for example, with one channel in charge of generating leads for another channel
- Aligned incentives to drive teaming across channels, such as shared rewards for a lead that comes in online but that is converted on the phone or at the store

Every company must discover the multichannel strategy that suits it best. But our experience has convinced us that *all* approaches must involve an organization-wide effort to upgrade not only metrics but also reporting relationships, interdepartmental collaboration, incentives, and personnel.

Technology Shortcuts. Over and over again, we hear clients claim that channel integration will mean large-scale investment in expensive technology and that it will take years to get it right. It's true that technology is important, but there is no need to install state-of-the-art systems before acting. When the current level of technology is clearly inadequate, there often are other approaches that will get a company to 80 percent of its goal with just 20 percent of the investment.

Consider the elegant solution that one bank discovered when it wanted its call-center agents to be able to make appointments with branch employees on behalf of bank clients. A sophisticated new IT system was proposed and debated until someone suggested that they simply use Outlook, which all branch employees had on their PCs. Now, instead of an expensive technology problem, the bank merely has an inexpensive organizational-discipline issue: ensuring that all employees actually use Outlook to keep track of their meetings.

Similarly, companies frequently feel that they must launch large CRM programs to gather mountains of information on customer value by channel. Yet the sheer scale of the effort and the uncertainty of its benefits end up delaying important actions that need to be taken. Instead, managers could learn most, if not all, of what they need to know by gathering a few of their best people together to conduct some quick analyses with existing data.

Many companies are also saddled with legacy IT systems that cannot speak to each other, but the prospect of replacing those systems with new and expensive technologies can be overwhelming. Rather than build a whole new system from scratch, companies can often leverage their current Web-based system so that customers and employees in every channel are literally on the same page. A U.S.-based insurance company, for instance, decided to develop an online channel and then realized that its Web site could be extended to serve as a platform for agents to access information as well. As a result, the company has greatly improved its ability to serve customers online, on the phone, and in personal interactions—all for very little investment in resources.

To make good on the multichannel promise, you need to shift from thinking in terms of separate channels that offer various sales and services to developing a business model in which sales and services are seamlessly integrated across channels. Such a model calls for eliminating inefficient silos, increasing cooperation, and optimizing the investment across channels. The sidebar below provides a checklist for upgrading your multichannel offering quickly and inexpensively.

Shifting a company from a focus on costs and individual channels to a cross-channel focus on customers may not be easy, but it doesn't always require the daunting level of technological change that managers often fear. The payback in better customer service and a larger share of profitable customers' wallets—as well as lower costs and reduced complexity—is well worth the effort.

Upgrade Your Multichannel Approach Quickly and Inexpensively: A Checklist

Companies can take the following steps to upgrade their multichannel offering without a major internal reorganization or an enormous investment in technology:

- √ Know your overall business strategy and the role that each channel plays in supporting it
- √ Know how consumers use your channels and for which purchasing occasions
- √ Know the cost of providing the same customer with the same product in each of your channels
- √ Test the smoothness of your multichannel integration by putting yourself in the customer's place
- √ Encourage customers using one channel to try another (this is much easier than going after entirely new customers)
- √ Foster collaboration, teaming, and data sharing across channels

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