

# The implications of a retail offering for the successful multi-channel strategy

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# **The implications of a retail offering for the successful multi-channel strategy**

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## **THE IMPLICATIONS OF A RETAIL OFFERING FOR THE SUCCESSFUL MULTI-CHANNEL STRATEGY**

### **OBJECTIVES OF THE STUDY**

The purpose of this thesis is to study the implications of a retail offering for the successful multi-channel strategy. The idea is to identify the varying roles and functions of different channels, namely the offline and online channels, and how these fit a retailer's original business model. Due to the differences in the offering characteristics and in the channel attributes, different product and channel combinations are more convenient for customers to use than others. That is, the value of information and the relative complexity of a buying process are aspects that can limit channel use as there are things an offline channel can provide but an online channel cannot and vice versa. This study aspires to provide understanding about the implications of these aspects for the multi-channel integration and optimal alignment of the channel roles and functions with a firm's generic strategy decisions.

### **METHODOLOGY**

The empirical part of the thesis is formed by the qualitative case studies of three companies with different retail offerings. The data from the case companies was collected for the empirical study using semi-structured interviews of the company representatives. The empirical data was analyzed in the light of the theoretical framework and various integration strategy and business model theories discussed in the literature review of this thesis. The idea of the empirical study is also to illustrate different integration strategies retailers have used with their online and offline channels and how these strategies are affected by the firms' offerings.

### **FINDINGS**

The results of the study indicate that the offering characteristics and channel attributes pose certain limitations to the channel roles in a multi-channel strategy. The channels should be seen as complementing alternatives providing a convenient multi-channel shopping experience for consumers at different stages of a buying process. The optimal integration of the channels provides a variety of benefits for both retailers and customers while the two-way use of information has a significant role in the creation of these benefits.

### **KEY WORDS**

Multi-channel integration, multi-channel strategy, retailing, retail offering, electronic commerce, Internet strategy

## **TARJOOMAN VAIKUTUKSET MONIKANAVASTRATEGIAN TOIMIVUUTEEN**

### **TUTKIMUKSEN TAVOITTEET**

Tutkielman tarkoituksena on perehtyä vähittäiskaupan tarjooman vaikutuksiin monikanavastrategian toimivuuden kannalta. Tarkoituksena on tunnistaa käytettävien kanavien, fyysisten ja virtuaalisten, erilaiset roolit ja toiminnot sekä se miten nämä sopivat yrityksen alkuperäiseen liiketoimintamalliin. Erot tarjoomien ja kanavien ominaisuuksissa aiheuttavat sen, että toiset tuotteiden ja kanavien yhdistelmät toimivat asiakkaan kannalta paremmin kuin toiset. Tarkemmin sanottuna informaation arvo ja ostoprosessin monimutkaisuus vaikuttavat kuluttajien kanavien valintaan ja käyttöön fyysisen kanavan pystyessä tarjoamaan tiettyjä etuja virtuaaliseen kanavaan verrattuna ja päinvastoin. Tämän tutkimuksen tarkoituksena on lisätä ymmärtämystä näiden tekijöiden vaikutuksista monikanavastrategiaan sekä eri kanavien integrointiin optimaalisella tavalla yrityksen yleinen kilpailustrategia huomioiden.

### **METODOLOGIA**

Tutkielman empiirinen osuus muodostuu laadullisesta tutkimuksesta, joka keskittyy kolmeen yritykseen, jotka kukin edustavat hyvin erilaista tarjoomaa. Aineisto tapaustutkimusta varten kerättiin puolistrukturoiduilla haastatteluilla, joissa haastateltiin kunkin kolmen yrityksen edustajia. Kerättyä aineistoa analysoitiin tutkielmassa käytetyn teoreettisen viitekehyksen sekä erilaisten integraatiostrategia- ja liiketoimintamalliteorioiden valossa. Empiirisen tutkimuksen tarkoituksena on havainnollistaa erilaisia fyysisten ja virtuaalisten kanavien integraatiostrategioita vähittäiskaupassa ja sitä miten yritysten erilaiset tarjoomat vaikuttavat näihin strategioihin.

### **TUTKIMUKSEN TULOKSET**

Tutkimuksen tulokset osoittavat, että tarjoomien ja kanavien ominaisuudet asettavat tiettyjä rajoitteita ja mahdollisuuksia kanavarooleille ja -toiminnoille monikanavastrategiassa. Tutkimuksen mukaan kanavat tulisi nähdä toisiaan täydentävinä vaihtoehtoina, jotka tarjoavat kätevän ja miellyttävän tavan tehdä ostoksia monikanavaympäristössä ja hyödyntää eri kanavien ominaisuuksia ostoprosessin eri vaiheissa. Optimaalinen integraatiostrategia mahdollistaa monia hyötyjä niin yritykselle kuin sen asiakkaillekin ja informaatiolla on tärkeä kahden suunnan rooli näiden hyötyjen synnyttämisessä.

### **AVAINSANAT**

Monikanavaintegraatio, monikanavastrategia, vähittäiskauppa, tarjooma, sähköinen vähittäiskauppa, Internet-strategia

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# **1 INTRODUCTION**

## **1.1 Background for the study**

Consumers are interacting with different retailers more or less on a daily basis. Some people enjoy going out shopping more than others, while some prefer to stay at home and buy online. Multi-channel firms have multiple touch points with their customers and so are able to reach customers better than those operating only in one channel. Using multiple channels is not a new thing in retailing, yet the ways in which the channels are managed and fit together have in many cases received too little attention. That is, by browsing through many retailers' websites it is evident that thorough integration of their physical stores and websites is not very common and it seems to be that these channels are operated somewhat separately.

In multi-channel shopping the channel choice poses certain limitations to customers and to the buying process. Shopping in a physical setting requires a customer's physical presence, time, and effort, but there are certain benefits in using that channel a virtual retail channel may be unable to provide. A virtual channel, in turn, saves time and effort as consumers can log online anywhere anytime to search and compare products quickly and easily.

One of the probably most influential causes for the increase in the use of virtual channels is the widespread access to broadband Internet. Furthermore, the technological advance has made it possible to develop more sophisticated and powerful computers and mobile devices through which the Internet can be accessed wirelessly and effortlessly. (Stone et al. 2002)

According to Cassab & MacLachlan (2009) competition today among retailers, especially among electronic retailers, is not as much restricted by geographical location as it is with traditional brick-and-mortar firms. Virtual channels enable geographic expansion as the business is not so much tied to any physical location. All this has become possible through technological advances in various industries.

However, some products may require different types of evaluation during the buying process and product specifications may not be enough to make the purchase decision. This means that retailers need to thoroughly plan the roles of their channels and the functions they provide in them.

Competition and desire to grow drive companies to constantly look for new opportunities and ways to enhance their performance. In retailing, product variation is often very little and firms need to find ways to stand out of its rivals. Therefore, retailers need to find creative ways to integrate their channels, physical and virtual, into their generic strategy and provide their customers with a consistent view of the company, and a convenient and positive shopping experience in a multi-channel environment.

## **1.2 Purpose of the study and the research problem**

On a general level, the purpose of this study is to look at the adoption of the Internet to traditional retailing. The study aspires to find general guidelines for developing multi-channel integration strategies that are aligned with the generic strategy decisions and value proposition reflected in a firm's business model. Furthermore, this study aims to look at multi-channel integration and especially the integration of online and offline channels in a way that takes into consideration channel attributes and characteristics of a firm's offering.

More specifically, this thesis aims to identify and define certain characteristics in a retail offering and channels used by a retail firm that have fundamental effects on the firm's multi-channel integration strategy. These elements are looked through a theoretical framework, and based on this framework certain integration strategy implications can be drawn.

The purpose is to identify general strategic guidelines for firms to integrate the Internet into their present business model with operatively and strategically optimal way that supports their value proposition. That said, a central concept in this thesis is the value companies strive to deliver to their customers. The purpose is also to find out and explain which channels retailers should use and to what extent in the value creation process.

The purpose of the empirical study and the case companies are to illustrate different web integration strategies based on different offering characteristics, and to demonstrate how multi-channel retailing is operated in these companies. The aim is also to explain the value proposition and business models these companies have and identify and evaluate how these aspects affect their multi-channel strategy in practice. In depth discussion about technological aspects and infrastructure of a company as well as logistics related to multi-channel integration is beyond the scope of this thesis.

These aspects lead to the research problem which can be defined as to analyze the implications of a retail offering for the adoption and integration of the Internet to support and complement the traditional retail business model, and to describe the importance of the alignment of the integration strategy for the present business model. Additionally, the study aims to develop and describe different channel roles and web integration strategies based on the characteristics of a retailer's offering and the generic strategy of the company.

### **1.3 Research questions and the structure of the study**

Multi-channel integration is a complex process that includes various elements and variants that affect the creation of an integration strategy and the success of it in a firm's business as well as the applicability of it for the industry where the firm is operating. Multi-channel integration and the related strategies can be looked at from many different perspectives and the view provided in this study is just one of them.

The research question this study aims to provide an answer is following:

*What are the implications of a retail offering for a firm's multi-channel integration and how the integration ultimately fits the firm's business model?*

To provide an answer to this question the study has been structured so that the theories discussed in the literature review start from basic introduction to business models and strategy. The discussion moves from these business aspects towards retailing and eventually to multi-channel retailing and theories related the integration of multiple channels. The core

of the theoretical part is in the discussion regarding the integration of physical and virtual channels in an optimal way, and based on these theories a theoretical framework is constructed.

The third chapter in this thesis discusses the theoretical framework of the study and describes the research methodology. The chapter is followed by an empirical study of three case companies representing different types of retail offerings. A comparative analysis of the theories discussed in the literature review and the empirical study of the case companies is provided in the fifth chapter with some key findings of the study. Finally, the last chapter concludes the study and presents some managerial implications that have arisen during the research.

## **2 LITERATURE REVIEW**

The following literature review is structured so that the first part discusses the basic components of a business model and strategy; the second part concentrates on retailing and especially on contemporary forms of retailing in a multiple channel environment. The third part focuses on multi-channel integration followed by the fourth part where the focus is on the integration of offline and online retail channels. The perspective in this literature review is mainly on the retail trade of tangible consumer goods, but due to the nature of contemporary retail where the service element is often strongly present the discussion includes service components as well.

### **2.1 Business models and strategy**

It is relevant to start the theoretical discussion in this thesis with a brief introduction to the concept of a business model and to discuss how it relates to organizational strategy. These two concepts, a strategy and a business model, are often used somewhat interchangeably, but as Magretta (2002) states a business model is not the same thing as a strategy. She argues that a business model describes how different pieces of a business work together as a system with a defined purpose, whereas a strategy is seen as including a competition perspective as well. In other words, in a competitive strategy the system is reflected against rivals and so, a strategy defines how the company's operations differ from other firms in the industry. (Magretta 2002)

Linder & Cantrell (2001) claim that it is essential for companies to have both, a clear business model and a strategy for being able to create value over the long run. The business model defines a way a company creates value, and ultimately makes money in its current business environment, while a strategy defines the position within an industry a firm is operating and provides a framework through which the company sees itself and competition in a constantly changing business environment. Hence, the strategy is seen essential for

proactive but also for reactive actions a company needs in order to keep up with the changing environment. (Linder & Cantrell 2001)

A business model includes the fundamental elements such as the value proposition and operations with the stakeholders. These operations work two ways, they provide value for the customers while they also make use of what the firm gets in return. Whereas a strategy should be seen as a set of distinctive capabilities that are hard or even impossible to imitate and which a firm uses to sustain its competitive advantage and success. Thus, where a business model is seen more as a director of daily operations, strategy is seen as a guide to develop the business to better leverage success from changing and evolving industry and new market opportunities. (Linder & Cantrell 2001)

According to Magretta (2002) all new business models are modifications of a generic value chain common in every business, and that they consist of two fundamental parts. Aspects related to the offering are included in the first part. In other words, everything that affects having a product in the inventory or preparation of a service belongs to this first part. The second part includes all activities which are relevant to selling a product or a service. These activities are such as finding and reaching customers and the actual sales process that includes the transaction and distribution or delivery of a product or a service to a customer. (Magretta 2002)

By looking at the definitions given above, a business model answers questions such as “How to make money in this business?”, and “What is the underlying economic logic that explains how we can deliver value to a customer at an appropriate cost?” A successful business model is simply seen as a better way than the existing alternatives to offer value for customers. Then again, a successful business model may also be targeted to offer better value to a discrete group of customers. (Magretta 2002)

Another way to see a business model is as a blueprint of doing business. It is a translation of strategic issues, such as positioning and goals into a conceptual model that simply explains the business functions. The business model serves also as a building plan that defines the business structure and systems that constitute a company’s operational functions and form. (Ostenwalder et al. 2005)

Amit & Zott (2001) present business models as structures that create content to a firm's business, and govern the firm's transactions with its exchange partners. A business model is seen as a fundamental component of business as it defines companies' ability to create and capture value. Horsti (2007) defines a firm's business model as a missing link between a strategy and processes, and sees it as a relevant concept in the implementation of a defined strategy.

According to Zott & Amit (2008) the way organizational design is seen in research seems to have changed from an administrative task to be more as an organization of exchanges with external parties including customers, partners, suppliers and other stakeholders.

In summary, it can be stated that common for the authors referred above is that they all relate a business model to value creation and operative functions that reflect the corporate strategy in practice. In other words, a business model reflects a firm's generic strategy and translates it to everyday processes. The core of a business model is a process that creates value to customers and the success of it is measured by its ability to create better value for customers than competitors. The next chapter explores this concept more from practical perspective by explaining some different basic business model types.

### **2.1.1 Different business models**

Defining a business model is obviously one thing, but understanding its purpose in practice, and different alternative business models, is another. Hence, it is important to discuss the concept of a business model in more detail and explore some practical adaptations of a business model for different situations and environments.

Performing the same activities as rivals will not lead to success in the industries where products and services offered have very little or none variation. Furthermore, the point of a strategy or a business model is not to do things merely differently but to do those activities and processes also better than competitors. It is about doing something of value for customers. Also, part of a successful strategy is to do things so that they are hard or even impossible to duplicate by rivals. (Magretta 2002)

According to Porter (1985) the only way to set oneself apart from the average industry performer is to achieve and sustain a competitive advantage. This can be done for example by operating at a low cost or by having premium prices. It is also possible to combine these and do both. Strategic positioning offers another way to attain a competitive advantage. This means that a company does something different which delivers unique value to customers. The ways to do this include offering different features in products or services or possibly a different type of logistical arrangements. For example, providing high level customer service can be a way to differentiate from competitors. Competitive convergence makes it harder to sustain operational advantages making it even more important for the companies to set themselves apart from rivals through strategic positioning. When a company gets closer to the limits where it cannot improve its operations to be more efficient than its rivals', the economic value can be generated through differentiation. (Porter 1985)

Companies tend to focus on seeking means to increase speed and agility in order to stay ahead of the competition, but without distinctive strategy these elements will not lead anywhere. Unless unique competitive advantages are created, the improvements are generic and will not help to outperform competitors in the long run. (Porter 2001)

Both Magretta (2002) and Porter (2001) see strategy to go beyond striving for industry best practices. They both identify a specific value chain in their discussion about business models and strategies, and they see those both creating a series of integrated activities that generate value to customers. For most consumers, maximizing the value is decisive in choosing between retailers.

Zott & Amit (2008) have a somewhat similar approach to a strategy as Porter (2001). They see it as a pattern of managerial actions that defines a firm's position in a product market which enables the firm to achieve and sustain its competitive advantage. A product market strategy is a concept Zott & Amit (2008) use in explaining a way to position a firm against competition in different market spaces. The business model a firm has chosen or evolved to be using can be seen distinct from the product market position the firm is operating in. This means, that firms may be using very similar product market strategies while their business model is completely different from each other. Whatever the product market strategy a company uses is, a firm with a business model that creates more value than competitors' has

a competitive advantage. The product market strategy can be defined through the questions needed to answer when planning the strategy. The questions are such as “What kind of generic strategy to adopt, cost leadership or differentiation?” and “What products to sell and to which group of customers?” (Zott & Amit 2008).

Zott & Amit (2008) divide business models into two categories using slightly similar categorization as Porter (1985), namely novelty-centered and efficiency-centered business models. The first category includes business models that apply new ways to interact and conduct economic exchanges with participants in a firm’s business network. That is, novelty-centered business models refer simply to doing things in a new way or providing something new for customers. In practice, this could be done by linking transaction participants in a way that has not been done before, or by adopting a new transaction mechanism. The second business model category by Zott & Amit (2008) includes efficiency-centered business models that aim to reduce transaction costs thus reducing costs for all participants in a value chain. The cost reductions in this case come from factors such as decreased uncertainty and complexity or lessened asymmetric information that may hinder the transaction and decrease the efficiency of it. Furthermore, the aim is also to reduce coordination costs and risks involved in a transaction. (Zott & Amit 2008)

The value a customer perceives is a result of different factors. Many customers compare retailers and seek low prices, and so, low-cost strategies attract consumers, however, being able to differentiate from others with for example better service is valued by some customers too. Hence, in the end, whatever is the business model a company uses, the underlying aspiration of it is to provide better value for customers than rivals thus attracting them to choose the company over competitors.

### **2.1.2 Business models and the Internet**

In this study, discussion concerning electronic business models and the business models of retailers operating only in the virtual environment is limited to a very brief introduction of the concept. The scope of this study is limited to more traditional brick-and-mortar type business models and to the integration of different channels into these models.

Porter (2001) argues that, despite the fact that there are various industries built entirely on the Internet, for traditional brick-and-mortar firms it is important to see the Internet as an enabling technology. The Internet should be perceived as a powerful set of tools applicable to almost any industry and strategy. Porter (2001) says also that it is now required that companies take advantage of the Internet and deploy it somehow, but the question is how to do that.

The Internet brings benefits to buyers by providing easier access to information about different products but there are many benefits for sellers as well. Easy access to information shifts the bargaining power to buyers. Hence, the competition easily converges on prices and companies need to find ways to sustain their competitive advantage. Thus, those who succeed will be the ones who know how to fit the Internet in the most applicable way to their established operations as a complement rather than setting the Internet apart from their present operations and business models. (Porter 2001)

According to Kosiur (1997) electronic commerce builds on the structures of traditional commerce and is seen as an electronic extension of traditional business and a way to conduct some of the functions of traditional business models electronically. Conducting some of the functions electronically adds flexibilities and brings new opportunities for companies. However, many see electronic commerce as merely buying and selling of products and services online. On the contrary, electronic commerce is a broad concept that extends beyond the mere transactions and payments of products or services. The supporting functions such as demand generation, after sales support, customer support and provision of customers with other relevant information are essential parts in electronic business too. (Kosiur 1997)

Porter (2001) argues that the source of a sustainable competitive advantage is in the ability to customize generic packaged applications and to deploy the Internet technology to a company's strategic position. Furthermore, the more the companies are willing to sustain the competitive advantage the higher the level of integration in the value chain must be.

The Internet is a powerful tool for improving operational effectiveness as it can ease and speed up the exchange of information throughout the entire value chain more or less in every industry. Due to its nature as an open platform standard firms can take advantage of the Internet's benefits with relatively little investments compared with the use of information

technology investments done by past generations. This will eventually lead to the convergence of the competition, and while competitors do very similar or even the same things customers will eventually end up making their purchase decisions based on the price. This will eventually lead to diminishing profits. (Porter 2001)

Porter's (1979) Five Forces analysis and the Internet's role on that are relevant to understand in order to get a more thorough picture of the Internet's effect on business models. Porter (2001) explains the impact of the Internet in his article Strategy and the Internet and discusses the effects on each one of the five forces. The Internet affects the forces of competition and shapes the ways business is conducted in industries. Competition in general, the barriers of entry, the threats of substitutes, and the bargaining powers of buyers and sellers are things that define what the industry structure will be like. Not only does the Internet affect the access to information but the Internet technologies alter the costs by reducing variable costs and by shifting the weight of a cost structure more towards fixed costs which again increases the pressure to compete on prices. This may turn out to be destructive or even fatal for some companies. Furthermore, due to the openness of the system and availability of information, it is even more difficult to sustain proprietary offering which essentially affects competition as well. Then again, the Internet expands the market space geographically, consequently bringing in more firms to compete against. Therefore, in the midst of increasing competition, the firms which are able to integrate the benefits of the Internet to their core competence and boost their competitive advantages through the possibilities the Internet offers are likely to do better. (Porter 2001)

The ability to integrate the benefits offered by the Internet into the established position and direction of a company is an important factor for success. The next chapter discusses the elements relevant to the alignment of a business model and the possibilities emerging from the technological advances and the possibilities of the Internet.

### **2.1.3 Business model strategic fit**

According to Porter (2001) having and implementing a strategy requires discipline and firms need to be able to define a unique value proposition and constantly develop its distinctive position while keeping in mind that not all possible directions should be taken. That is,

companies need make a careful decision about which opportunities to pursue and to which not. The strategy a company has chosen must deliver value, and so it must include a value proposition. It must be something different from rivals, something that makes customers choose the firm over its competitors. It does not need to offer unique value for everyone, but to deliver unique value to a particular chosen group of customers. To be able to do this, companies must make interdependent decisions along the value chain so that all the activities involved in the chain are mutually reinforcing and fit together in an optimal way. The better the fit among the activities in the value chain the harder it is for competitors to excel the synergy the integrated and well fitted value chain provides. Then again, without this fit it is much easier for competitors to match improvements in one part of the chain and adapt that to theirs. (Porter 2001)

It is understandable that a complex and integrated system is difficult to imitate. It would require a competitor to duplicate large parts or even the whole value chain system which may be a very expensive and difficult task. Furthermore, the applicability of the imitated part may not fit the overall strategy and thus may even make things worse. That is, things which work for some may not work for all companies. In addition, it seems to be that certain business models work better with certain strategic positions.

Zott & Amit (2008) studied coupling of business models with different product market strategies and found out that there is better fit between certain business models and product market strategies than others. For example, efficiency-centered business, explained in the previous chapter, fits well together with a cost leadership strategy as they both aim for lowering the cost of the activities and transactions, however efficiency-centered business models do not fit very well with differentiation or early market entry strategies. Then again, they also found that a novelty-centered business model fits well with differentiation, cost leadership, and early market entry. (Zott & Amit 2008)

These results support a view that finding an optimal fit between a business model and a product market strategy is an essential part in creating and sustaining of a competitive advantage. Therefore, it is relevant to discuss how this fit applies to the other factors contributing to the creation of sustaining competitive advantage. Hence, the overall role and the fit of the Internet are relevant aspects to consider in this context.

Porter (2001) says that failure to deploy the Internet in a strategically proper way contains a great threat to a company. He argues also that the Internet should be deployed throughout a firm's value chain so that it reinforces the traditional business model the firm has and complements its current way to do things. This can be done by using the technology as a tool for leveraging the firm's competitive advantage against competition. The possibilities the Internet provides should not be imitated from competitors but the applications should be tailored to fit a company's strategy and value chain so that it will reinforce and increase the sustainability of the competitive advantage. The integration of the Internet applications to the physical activities and operations compensates the shortcomings of both channels and further strengthens or may even enable a company to gain a competitive advantage. (Porter 2001)

It is important to understand the complementing roles of different channels. The characteristics and shortcomings of various channels will be discussed later in this study together with multi-channel strategies. Even though complementing channels and multi-channel integration strategies are discussed in more detail later in this thesis it is relevant to explore briefly some essential aspects relating to these concepts.

The strategic positioning and creation of a distinct value proposition are important as competitors can more easily duplicate firm's advances in operational effectiveness such speed, flexibility and efficiency. The strategic position can be strengthened and value increased through the integration of the traditional models and methods enabled by the Internet. This is especially true in the case of established brick-and-mortar companies. It is easier for these companies to adopt the Internet and integrate it into their traditional models than it is for electronic retailers to adopt traditional models and integrate them into their business and expand to a physical setting. However, certain reconfiguration is needed from brick-and-mortar firms in order for them to succeed in the optimal integration of other channels into their business model with a fit that creates synergy benefits of complementing channels. That is, established companies succeed in the deployment of Internet technology when they reconfigure it to traditional activities and operations, but also when these companies discover a new combination of online and offline channels that complements rather than cannibalizes each other. (Porter 2001)

The next chapters will discuss more about the business models in retail context and how the Internet has altered this industry. The following discussion briefly explores some central aspects in retail business and then delves deeper into the aspects of multi-channel retailing. As it will be explained, the integration of multiple channels is crucial for attaining the maximal benefits of a multi-channel system. These benefits will also be discussed in the following chapters.

## **2.2 Retail business models and multi-channel retailing**

This chapter explains briefly few basic principles of retailing and strategic decisions relevant in the context of retail business. The discussion in this chapter goes through also some of the elements central in the contemporary retail business and the role and impacts of the Internet in it.

Gauri et al. (2008) define retailing to be based on two primary strategies, namely a pricing strategy and a format strategy. Pricing is considered as an effective strategic tool in retailing that is aimed to affect consumers' choice between retailers. Within a pricing strategy, a retailer may choose to have a low price everyday or to have high-low pricing strategy. When a firm goes for everyday low prices, it pursues a strategy that is aimed to attract customers with constantly low prices, but when it chooses to use high-low strategy the prices tend to change as the retailer offers frequent discounts to attract consumers. In some cases, retailers may use a combination of these two pricing strategies called hybrid pricing. Another important strategic decision retailers need to make concerns a store format. There are a variety of formats available for retailers to choose from such as a supermarket format, a supercenter containing enormous range of products under one roof, or limited assortment formats with narrower product categories. Pricing and format decisions lead to various combination strategies that retailers occupy in order to serve different customer segments and niches in their marketplace. Hence, a retailer's strategy choice and therefore a consumer's store choice are results of a retailer overall strategy formed by the format and pricing strategies which in turn derive from aspects such as market characteristics and competition. (Gauri et al. 2008)

Although pricing is one of the most powerful and effective strategic tools in retailing many retailers do not use this strategy as a sole source for sustainable competitive advantage. Attracting customers and drawing competitive advantage only from a low-price strategy might be risky and too easy for competitors to copy. However, sometimes a retailer who enters a highly competitive market sacrifices significant profits in order to acquire market share through low-price strategy. In any case, retailers need to pay attention to many factors in a complex setting and carefully consider the nature of customers and competition, and based on these factors develop and implement optimal strategy for pricing and store format. (Levy et al. 2004)

Attracting customers can be done in different ways. Apart from pricing and store format decisions there are four basic growth strategy alternatives, presented by Ansoff (1957) applicable to all businesses not just for retailers. These basic growth strategies are relevant to discuss in the context of this thesis since the principles for growth in those are more or less similar as in multi-channel integration strategies discussed later in this thesis.

These four growth strategy alternatives according to Ansoff (1957) are as follows:

- 1) Market penetration
- 2) Market development
- 3) Product development
- 4) Diversification

Market penetration refers to an effort to increase business performance with current products by selling more to the current customers or by finding new customers for the present products. Hence, with market penetration a firm remains with its present product-market strategy and tries to develop that to increase sales volumes. In market development, the present offering is adapted and developed to meet the needs of new markets, whereas with a product development strategy the aim is to bring something new to the present market and thus offer something new to existing customers. The fourth alternative is diversification and firms pursuing that strategy do both provide basically new products for new customers. Following some or all of these alternative paths at the same time is possible and common for many firms. (Ansoff 1957)

Whatever strategy or a business model a firm chooses certain things indicate whether the direction is successful. There are a variety of key performance indicators that show how the business is doing. Growth is another sign of success when a company is able to attract more and more customers. Obviously, financial performance indicates clearly if a business model a company uses can be considered successful or not. In order to improve financial performance retailers seek ways to improve efficiency and cut costs and so improve profitability. The following chapters will explore some contemporary elements in retail that are aimed to improve the customer satisfaction, and financial performance and growth of a firm.

### **2.2.1 Channels in retailing**

As said, firms with multiple channels have an increased amount of touch points with its customers and therefore reach consumers better than a retailer using only one channel. A variety of definitions exists for a channel. In this study, the term refers to a concrete distribution channel through which a product or a service is delivered, but also to a virtual or electronic touch point between a consumer and a retailer unable to deliver physical objects. A channel in this text refers also to a point of interaction through which information flows both ways.

Koistinen & Järvinen (2009) define a retail channel as a pathway from the producer to the consumers and that multi-channel strategies consist of complex networks that differ from traditional channel structures by providing a customer with complementary channels for better shopping options. Whereas Berry et al. (2010) argue that channels can be seen as mechanisms for communication, the delivery of products and services, and for completing transactions. Interactive retailers use a variety of channels such as brick-and-mortar stores, service kiosks, direct selling, mobile devices, catalogs, websites, and even vending machines. (Berry et al. 2010)

A channel can be viewed as a touch point or a point of interaction between a retailer and a customer. The underlying aim of a channel is to deliver entertainment or information to help customers in their purchase decisions. Furthermore, the point of a channel is to engage in marketing communication, either one or two way, with customers and to facilitate

interactions related to the transactions of products and services. In some categories, even the delivery of products and services to a customer is a function designed for a channel. Ultimately, the fundamental task of a channel is to work as a tool for building trust and loyalty in customer relationships and manage the processes associated with customer acquisition and retention. (Slack et al. 2008)

As a summary, it can be said that contemporary multi-channel retailing is used to leverage more value out of the business for both retailers and consumers. The improved customer service and improved convenience are naturally aspects which consumers value. Hence, it is obvious that when choosing a retailer or a service provider, in addition to pricing, consumers look at these elements that add value. From retailers' perspective, it is understandable to develop their business into a direction that offers better value for customers and thus generates better sales.

### **2.2.2 Contemporary retail and multi-channel retailers**

The Internet has radically affected the whole value chain from a manufacturer to an end customer. The behavior of consumers has significantly impacted by digital revolution that has empowered consumers and allowed them to easily compare products and prices. This has shifted the bargaining power towards customers by reducing the information asymmetry. The Internet has also altered the marketplace by compressing spatial distance, time and knowledge. As a consequence, pricing strategies have become less important and retailers are forced to innovate and move towards differentiation or focus strategies. However, the competitive advantage and the same generic strategy used in the traditional offline market should be applied in the online context as well. That is, it is inherently risky to try to take advantage of the Internet's opportunities by shifting away from a firm's core competency. (Griffiths & Howard 2009)

So, with the presence of the Internet and the advances to retailing it has enabled, customers increasingly choose the time and methods of interactions with retailers. Consumers are now commonly using a variety of channels during different phases of their decision making process. Retailers use this phenomenon to reinforce customer relationships by providing

multi-channel services as a way of inducing further purchases with positive multi-channel shopping experiences. (Rangaswamy & Van Bruggen 2005)

By using different channels, retailers have developed integrated techniques to serve their customers better and capture more sales. For example, retailers are increasingly offering a possibility to buy products from their website and to have them delivered to the nearest store so that customers can avoid extra shipping costs and conveniently guarantee the availability of their desired product. This gives retailers an opportunity to use convenience factor to stand out from competitors, especially from the Internet retailers who lack this possibility to offer in-store pick-ups and mainly compete on prices. Convenience is an underlying factor motivating a sophisticated cross-channel shopper. (Griffiths & Howard 2009)

Zhang et al. (2010) define multi-channel retailers as firms engaging in retailing using multiple channels and whose primary source of revenue comes from retailing activities. Firms are deploying multi-channel strategies for helping customers to find product information at a retailer's website, then possibly make the actual purchase at a store, and later maybe obtain technical support in another channel. By doing this, firms can create superior service and so give its customers fewer reasons to switch to competitors. Multi-channel retailers are also able to track customer behavior better than retailers using only one channel. Retailers can thus improve their understanding about their customers and improve customer retention this way as well. (Rangaswamy & Van Bruggen 2005)

The role of Internet in contemporary retailing is significant. It works as a facilitating technology in many areas and allows traditional offline retailers to complement their operations and services with online channels thus enhancing their operational efficiencies and providing customers with better service, improved convenience and other benefits. Retailing in the Internet is now dominated by the multi-channel operators evolved from traditional brick-and-mortar retailers. For example, in the USA the significant majority of cross-section retailers are using multiple channels in selling their merchandise. (Zhang et al. 2010)

Cassab & MacLachlan (2009) argue that evidence supports that customers' shopping patterns have evolved as a response to multi-channel retailing. Furthermore, multi-channel shoppers tend to have higher expenditures making them even more attractive compared with consumers using only one channel. Improved financial performance is what ultimately motivates retailers

to develop a multi-channel strategy. The improvements come from low cost access to new markets, increased customer satisfaction and loyalty, and from a possible strategic advantage provided by a multi-channel system. Adding a virtual channel enables firm to reach customers who have been previously out of reach due to the distant geographical location.

Multi-channel consumers tend to have a higher lifetime compared with consumers who use only one channel. Consequently, multi-channel consumers are especially beneficial for firms to serve. The ability to create a strategic advantage through the use of a multi-channel system stems from the fact that retailers are able to satisfy the needs of multi-channel consumers by complementing certain deficiencies in some channels with benefits in other channels. One of the conveniences with virtual channels is that they are not restricted by the opening hours of the store and customers can purchase products mostly whenever they want to while saving time and effort needed to visit the store. (Zhang et al. 2010)

### **2.3 Multi-channel integration**

The following section consists of theoretical discussion related to the integration of multiple channels. A majority of the text in this study focuses on the integration of the retail channels and sales of consumer goods. However, the service element is often strongly involved in a buying process and thus it is relevant to discuss the topic also with regard to services.

The first section explains the basic idea behind the integration of multiple channels by defining the concept on a general level. The second section discusses the drivers and enablers of the phenomenon, whereas the latter parts will go into more detail regarding the objectives and the fundamental aim behind the integration as well as the elements of integration strategy.

A well-integrated multi-channel system allows consumers to conveniently gather information about a product, make the purchase, pick up or return the product in the nearest while the system simultaneously gives a consistent image of the company across the channels. To some extent, the emergence of integrated multi-channel retailing results from the rapid expansion of the Internet as a new channel for selling products and services to consumers. (Zhang et al. 2010)

The idea of multi-channel integration is relatively easy to comprehend as an integration of various channels. However, this definition requires thorough understanding about two fundamental concepts forming the definition, namely the concept of a channel and the concept of integration. Therefore, it is helpful to start the discussion of multi-channel integration by defining the basic components of the term. The previous chapter already discussed the features of a channel and the following text will thus explore the concept of integration.

The Oxford English Dictionary online ([www.oed.com](http://www.oed.com)) defines the action or process of integrating as follows:

*“The making up or composition of a whole by adding together or combining the separate parts or elements; combination into an integral whole: a making whole or entire.”*

*“The combining of diverse parts into a complex whole; a complex state the parts of which are distinguishable”*

By these definitions, multi-channel integration can be seen simply as combining separate channels into an integral whole. However, the underlying reason for the integration is in the management of customers in multi-channel environment. Stone et al. (2002) define the concept as a way to serve and manage customers in a consistent manner across more than one channel. According to their definition, the integration aims to produce seamless service for customers by coordinating all channels and media in a consistent way. In addition, it is important to understand the distinction between a delivery channel and a service channel. Stone et al. (2002) argue that the point of multi-channel integration is not to have the channels work the same way and do the same things. Different channels should be seen as complementing each other and performing different tasks.

Cassab & MacLachlan (2009) refer to the use of alternative modes of contact and interaction between a customer and an organization in defining a multi-channel service. They describe multi-channel strategy extending beyond traditional retailing and consisting of a wide range of different combinations of products and services. Whereas Griffiths & Howard (2009) argue that integration is not either or decision. They see it including a set of complex and difficult questions relating to the configurations of business units.

According to Rangaswamy & Van Bruggen (2005) the aim of integrated multi-channel marketing is to enable firms to build and strengthen their customer relationships by providing current and prospective customers with information and support through synchronized and integrated channels.

A complex and technical environment might require a sales person involvement in explaining a product or a service specifications and features, or in addressing with queries and delivery issues, whereas simpler tasks such as reorders and status checks can be operated through websites or call centers in a way that is more cost-effective for both the customer and for the providing company. (Stone et al. 2002)

Berman & Thelen (2004) describe a well-integrated multi-channel strategy as providing customers with a single entity of complementary channels and distribution alternatives. This view stresses the consumer's point of view in which the firm is offering products and services in a consistent way through a variety of alternative channels.

According to Zhang et al. (2010) the elements of business relevant in building an integrated multi-channel strategy and often causing major challenges for retailers are such as organizational structure, integration of data, consumer analytics, and evaluation and performance metrics.

### **2.3.1 Drivers and enablers of multi-channel integration**

Retailing using various channels has been common for quite some time. Firms have had websites with shopping features as well as catalogue sales supporting the traditional retailing taking place in a physical setting of a retail store. However, the optimal integration of these channels has only recently started to gain the importance it requires, yet in practice there are still not many retailers offering consistent integrated experience.

The following section discusses the reasons and the enabling factors of multi-channel integration. There are numerous reasons for the generalization of multi-channel integration among companies in the retail industry. Two major concepts that seem to have been both driving and enabling the generalization of channel integration are technological advancement and changes in the perceptions of the role of customer service and customer relationship

management. With most of the companies, the fundamental aims are improved financial performance and generation of wealth for the owners. It is obvious that improved financial performance is what ultimately drives this change as well.

### *Technology*

Stone et al. (2002) argue that there are two key drivers for the multi-channel integration and multi-channel customer management, namely, developments in the new channel technology, and expectations and requirements of customers. The developments in technology include advances such as the speed and reliability of storage and communications technology and convergence of multimedia such as voice and video and other data. Along with these technological advances customers have learned to expect and require more of these aspects in their transactions and service processes with retailers. Customers have learned to expect more from their interactions with a company as they are more aware of the possibilities of the developing technologies.

Along with these expectations, customers' desire for consistency and convenience has increased as well. Multi-channel customers require consistency in the way the products and services are delivered to them through different channels. This increases the importance of channel integration and integration of processes required for providing customers with desired levels of convenience and consistency. (Stone et al. 2002)

### *Consistency and profitability*

When interactions with a company are inconsistent and different channels are not integrated, customers often react to this by complaining about the inconsistency. One major source of confusion is inconsistent inventory levels in a store system and on the company's website. This is often results due to lack of an enterprise-wide system for inventory management or due to the fact that this system is not linked to all of the firm's channels. (Rangaswamy & Van Bruggen 2005)

Traditionally channels have been managed as separate entities with a little or none communication between channels. All functions needed to fulfill a customer needs are included in each channel, excluding firms whose online presence means merely providing a website with no shopping features attached to it. An output of a channel is not the only thing

that can be inconsistent among channels. Management of separate objectives, staff and systems creates internal issues contributing to inconsistency as well. The separation of these things not only causes inconsistencies and may even damage the brand but can also cause increased costs. Hence, companies have started to adopt new integrated ways to take advantage of several channels during different phases in the buying cycle and the design and structure of each channel is planned, maintained, and measured accordingly. (Stone et al. 2002)

It sounds reasonable to assume that maintaining separate channels and managing them as silos with multiple infrastructures, technologies, management teams and even with different marketing strategies can be expensive, whereas integrated channel strategy, by sharing employees, processes and technology, can assist in improvement of a company's channel cost structure. Furthermore, by measuring the preferences and behavior of high-value customers in an integrated channel system, companies can identify key channel areas that are more important and require more attention and possibly new investments while it can also reveal certain areas or channel functions that are not preferred and may require the reallocation of resources (Stone et al. 2002).

Providing good and consistent service for high-value customers is obviously a good thing for a firm to do, and increasingly firms are striving to do this through multiple integrated channels. The integration is an important tool for retaining customers and minimizing the inconsistencies and consequences of service failures on different channels. However, servicing high-value customers is not the only reason and there is evidence that multi-channel shoppers tend to use more money than customers who use only one channel. Thus, it is important to provide these multi-channel shoppers an optimal shopping experience that contributes to better customer retention. (Cassab & MacLachlan 2009)

Stone et al. (2002) support this view by presenting multi-channel customers as a large and increasing proportion of the valuable and attractive buyers in financial services and retail sectors. Especially in retail banking multi-channel customers are found to be significantly more profitable than customers using only one channel. Furthermore, channel integration enables firms to differentiate and create more sustainable competitive advantage for themselves. Simply put, by synchronizing the channels, firms are able to better capture the high value of customers and preserve and gain market share. (Stone et al. 2002)

### *Channel limitations and customer service*

According to Porter (2001) even though technology and many Internet applications have developed and become even a core of many businesses, virtual channels have certain shortcomings compared with conventional channels. The Internet and the related applications are able to perform many useful processes and benefit both buyers and sellers significantly, but those applications have their limits. One of the problems Porter (2001) refers to from customers' perspective on the virtual online channels is the lack of physical examination of a desired product. A customer cannot touch or test a product nor get hands-on help with a problem with a product. In addition, knowledge that is transferred is merely codified information about a product or a service whereas a skilled real life sales person can share many details and draw conclusions and recommendations from his or her personal experiences and tacit knowledge. Delay is another factor that limits the use of the Internet channel for some consumers as the purchased goods will not be received instantly as it is with a physical channel. (Porter 2001)

The limitations with the Internet applications Porter (2001) describes for a firm are the inability to learn vital information about customers other than their purchasing patterns and habits, the lack of encouraging human contact and ability close deals, but also the lack of possibility for providing advice and reassurance for customers. The last point can be seen important to good customer service. (Porter 2001)

The Internet as a sales channel poses certain issues that affect both parties. One is that it involves extra costs that are caused by logistical arrangements and extra handling. In the case of electronic retailers, attracting new customers may be difficult due to the availability of options from to buy and seek information can be vast. Overall, virtual channels limit the ability to perform certain non-transactional activities that can be valuable yet low-cost functions for both a buyer and a seller. (Porter 2001)

Where one channel lacks the ability to perform certain functions another channel may have that ability. When a company is taking advantage of multiple ways to interact with a customer, the decision of the customer to use a particular channel is likely to be driven by benefits obtained rather the level of preference for personal interaction. (Cassab & MacLachlan 2009)

Improved customer service and the service quality are central concepts affecting the multi-channel strategy and integration of channels. Therefore it is relevant to discuss the impacts of these aspects on retail firms.

It seems to be that in contemporary retail, depending heavily on one channel, even though the performance on that channel is good, is not enough in terms of good customer service. Some channels provide face-to-face interaction between a company and a customer, whereas some channels empower customers to perform certain processes and thus to serve themselves. However, lack of face-to-face interaction on these channels results in fewer customer feedback and critical information vital for the development of firm's processes and for avoiding inconsistencies. Therefore, multi-channel integration is essential in order to have a system of flowing two-way conversations with customers. (Cassab & MacLachlan 2009)

From a customer's point of view the evaluation of the level of service and service interface is done in a more holistic way as a multi-channel consumer participates actively in different channels. Thus the channel and the service processes operated through that channel must be designed so that customers are able to perform their role in each channel. Firms are forced to deliver the products and services in a consistent manner and lessen the effort customers need to put in. This requires integrated designing so that the quality and functionality issues are not addressed only independently on each channel, but as a whole also to provide and gather accurate information for and about the customers. Companies need to understand the implications of integrated information and customer data as it facilitates improvements in service processes but in the business processes in general as well ultimately leading to better customer service and higher productivity. Even though customers cannot perceive the internal structure of a firm they are able to perceive the results of it when obtaining service with a little redundancy in any channel. This requires firms to centralize customer data and integrate the channel systems so that all channels can access the data in real time. (Cassab & MacLachlan 2009)

Customer service and customer relationship perspectives are important in multi-channel integration. The design of each channel should enable customers to perform their role at a specific stage of a buying cycle. However, the execution of customer relationship management in a multi-channel environment should not be such that customers feel like being controlled against their will which can decrease customer satisfaction and loyalty. Therefore,

it is important to develop multi-channel strategies in a way that does not take too much control away from customers, but gives them a feeling of being nurtured and taken care of in the relationship with the retailer. (Stone et al. 2002)

### **2.3.2 Objectives of multi-channel integration**

Drivers and enablers partially explain the purpose of the multi-channel integration. However, it is relevant to explore the concept more holistically and discuss the purpose of the integration in more detail in the light of benefits it can provide for a company and for its customers.

The consistent and seamless integration of channels is important for a retailer using multiple channels, and underlying business elements that provide success in traditional environment should be applied to an online environment as well. The critical success elements on the offline channel need to be converted to the online channel. In other words, a firm needs to find a way to replicate its critical functions which is feasible and optimal for the integrated channel. This may require a firm to apply new ways to interact with a customer so that the transition from one channel to another is seamless and level of service is on a desired level on each channel. However, as the channels differ in their unique strengths and weaknesses the way an online channel is used should be somewhat different but complementary. Hence, though the fundamentals of business should be that same, the strategy should be somewhat modified to fit the integrated channel. (Griffiths & Howard 2009)

As noted earlier, a customer's decision regarding to which channel to use is likely to be driven by the obtained benefits. In addition, customers' preferences in channel use are affected by the perceived and expected convenience. One channel may be convenient for browsing and comparing options and gathering information, while another channel is more convenient for the customer to make the buying decision and the actual purchase. Therefore, applications enabled by advanced technology accompanied with increased customer expectations are essential factors to consider carefully when planning integration strategy, but it should not be the case that all channels provide the same things. That is, all things on all channels. The channel functions should be such that the expected level of service for the certain target group of the channel is provided. (Stone et al. 2002)

Berman & Thelen (2004) divide the benefits of multi-channel customer management in categories, and argue that some of the benefits work for customers while others work through customers or work through efficiency. Hence, the following text aspires to discuss the aspects of multi-channel integration from both perspectives, namely the firm perspective and the customer point of view. The text first discusses the firm side of the issues and provides insights into the benefits a firm can reap by implementing a successful multi-channel strategy that fits its core business model. The latter part of this chapter approaches the topic from customers' side and aspires to explore the concept by discussing the benefits a customer perceives in a well-integrated multi-channel strategy.

### *Information*

Information works two ways as firms need information regarding customer behavior, but firms need also to give away information in form of promotions and product specifications. The benefits that relate to promotion in an integrated multi-channel system are such as the cross-channel customer communication synergies and digitization of promotional material. An integrated channel system enables firms to achieve synergy benefits through the use of one channel in promoting another. Naturally, the potential of multiple channels together in advertising increases the efficiency and the promotional messages reach their target audience better. (Berman & Thelen 2004)

A firm's website can be a valuable source of information for customers, but the website can also be an effective means to provide customers with operating manuals, warranty documents and registrations. Online channels enable the digitization of some products and services, and so, some products may be distributed using the online channel, which is convenient for a customer and cost effective for firms while freeing service personnel for more complex and higher value customer interactions. (Zhang et al. 2010)

A well-integrated multi-channel system can work as a powerful tool in gathering valuable customer data such as purchase patterns, but also things like which products receive more interest from customers. The integrated channel system helps to spread relevant customer data across channels allowing a firm to create a more complete customer profile. Customer profiles help firms to serve customers better in their needs but also to maximize cross-selling opportunities. (Stone et al. 2002)

Information acquired from one channel can be used to help make decision on another channel. The combined information from various channels is important part of firms' marketing research. Online displays are faster, easier and cheaper to modify compared in-store displays. Therefore, conversation rates between display and sales on the online channel help companies to make decision about how to use their valuable in-store display in the most effective way. (Berman & Thelen 2004)

From customer relationship management (CRM) perspective, multi-channel integration allows firms to use two-way communication with customers in building the customer relationship over time. Especially the Internet and different Internet related applications have helped firms to improve dialogue with customers as well as capture, interpret and disseminate crucial customer data. Multi-channel integration is essentially an important mediator in customer relationship management as it translates the outputs of the firm's business strategy and processes into a consistent value-adding system perceived by customers. Then again, CRM has an important role in providing information regarding customers for a company in order for them to develop and implement improved marketing strategies. Furthermore, customer relationship management involves decisions regarding channel combinations and channel participants and it needs to answer questions related to different channels and how to use them in interactions with customers and how to improve and guarantee positive customer experiences and a unified view for customers on these channels. (Payne & Frow 2004)

Tracking customer behavior not only helps firms to better meet the demand but to better understand their customer in order to develop the provided services to create strong relationships with them thus improving loyalty and retention. Optimally synchronized channels enable a firm to create superior service outputs that help the company to protect itself against competition as satisfied customers have fewer reasons to switch the service provider. This induces further purchases, enables better cross-selling opportunities and creates more high-value customers. (Rangaswamy & Van Bruggen 2005)

### *Efficiency*

Satisfied customers make further purchases. When a retailer uses an integrated combination of channels, it can exploit the strengths of one channel to compensate weaknesses in another channel thus overcoming certain deficiencies that may be critical for customer satisfaction.

One fundamental difference between a physical and a virtual channel is that in a physical store a customer is able to use all senses in the evaluation of a product as well as receive personal service, experience social situations and entertainment and in most situations receive the product right away. These elements require, however, time and energy from customers and that they actually visit the store that may not be close to their homes. Furthermore, the opening hours of a store may be inconvenient for some consumers. Hence, customer satisfaction, retention and loyalty can be improved by complementing the store channel with virtual channels that operate 24/7. (Zhang et al. 2010)

The sharing of processes, technology and information as well as organizational flexibility can lead to increased efficiency when a firm is synchronizing and integrating channel functions and processes. Furthermore, the integration of certain channel functions with business partners improves efficiency by reducing the costs of interactions in the business network. Synergies that result from an optimal integration strategy are contributing to efficiency as well. Integrated channel strategy enables firms to take advantage of certain synergies in their promotion, but firms with proper multi-channel strategy are able to extend the synergy benefits beyond mere promotional aspects when they leverage integrated assets and achieve efficiency through shared technology and staff. (Berman & Thelen 2004)

Creation of completely separate Internet strategy often leads to failure to capitalize the potential synergies and value of traditional assets, whereas the ability to integrate the original business model and competitive advantage to the Internet has a better chance for success. Through the integration, some firms may even gain a competitive advantage. However, firms should keep in mind that the activities performed in virtual channels do not remove the need for certain activities in physical channels, and may even amplify the importance of physical activities. (Porter 2001)

Creation of strategic advantage based on customer information is possible by using loyalty programs and tracking customer behavior with loyalty cards. However, there might be difficulties in linking customers to transactions with poorly integrated systems. Furthermore, gathering customer data merely from in-store purchases gives retailers a partial view of purchase patterns and consumer behavior. The Internet is helpful for tracking and collecting customer information as it offers a retailer an opportunity to collect the data of online search behavior and translate that to better product offering and service. Using multiple integrated

channels retailers can build an extensive service network that gathers critical customer data and uses that to further develop the system and target promotion and marketing activities more effectively. (Zhang et al. 2010)

When companies take advantage of shared common physical assets they can create the economies of scale and scope when they spread fixed costs across a variety of channels. Implementation of a certain multi-channel service such as accepting returns from online channels to retail stores may not increase the company's profitability instantly, but in the long run this can increase revenues and customer retention improving the profitability and creating cross-selling opportunities. (Zhang et al. 2010)

By avoiding confusing processes and functions that may decrease customers' motivation to use the same supplier firms build a positive brand image which is important for increasing customers' incentive to stay with the same supplier and purchase more products and services. This requires firms also to be able to leverage their established brand across their channels and to mitigate the risk of brand damage by carefully planning and executing the channel integration. (Berman & Thelen 2004)

Neslin & Shankar (2009) discuss five tasks for managers in their multi-channel customer management framework that are essential in successful multi-channel strategy. They see a starting point of a multi-channel strategy in understanding, analyzing and segmenting customers. They also see three potential visions that can be driving multi-channel strategy. These three drivers are 1) efficiency, 2) segmentation, and 3) customer satisfaction. Discussion about customer segmentation is beyond the scope of this thesis, but efficiency and customer satisfaction are essential parts of this study.

### *Convenience*

The purpose and advantages of multi-channel integration can also be looked at from a customer's viewpoint. As previously discussed, some benefits work through customers for a firm, but there are benefits in the integration of channels for customers too. It is important for retailers to understand the elements behind customers' channel choice in order to obtain the optimal value of the system.

Dholakia et al. (2010) argue that consumer behavior is influenced by complex and various psychological processes that manifest in shopping in retail environments. The behavior is driven by a variety of goals that include basic needs such as hunger or safety, but also more complex things such as self-esteem related needs and social aspects. Some of the motivations behind shopping are more conscious than others, while some things in consumer behavior are driven by more non-conscious processes such as emotions and values, not to forget past experiences. (Dholakia et al. 2010)

Advanced technology and Internet applications enable consumers to satisfy their needs in a variety of ways. Shopping is possible through a number of channels and communication media. Some consumers prefer shopping online while others may despise the Internet as a shopping place. However, even those who do not consider the Internet as a preferable shopping channel may still use it to obtain information about alternatives, compare prices or product specifications.

One of the many purposes of multi-channel integration is to provide convenience for each stage of customers' buying process. While multi-channel marketing enables firms to create better and stronger customer relationships it offers current and prospective customers information, products, services and support in whatever synchronized channel a consumer prefers to use. Furthermore, it aims to make customers' transitions between channels as smooth as possible in order to provide the customers with a view of one company satisfying the need rather a system of separate channels. (Rangaswamy & Van Bruggen 2005)

Berman & Thelen (2004) share the same view of a well-integrated multi-channel system that consumers view as a single retail entity that includes alternative and complementary channels to distribute products, services and information. Stone et al. (2002) present the same view, and stress the importance in the ease of transitions between channels.

However, customers need to be motivated and able to use a channel and participate in the self-service processes that are required on certain channels. Multi-channel customers are required to participate more actively when they interact with a company for example through an online store. Hence, consumers must be willing and able to perform their role while the company must provide them with this service encounter possibility as conveniently as possible. Therefore, consumers need to be informed and educated about the service

channels available as well as the benefits of using them. For a firm, this means employee training and education regarding various channels the company is using. (Cassab & MacLachlan 2009)

Consumption is goal-oriented and purposeful and consumers use specific channels in fulfilling their needs in an optimal way. The decision of using a certain channel is based on the expectations regarding cost relative to benefits obtained using this channel. In other words, consumers tend to a channel that will satisfy their needs in the easiest way and provides the best value. (Noble et al. 2005)

A decision retailers need to make is to choose the level of self-service technologies adopted on their channels. As channels differ in their way of complementing other channels and supporting interactions between a firm and its customers the channels also convey the message of a retailer's brand. Operations efficiency and cost savings, but also access to new market segments, attract firms to adopt self-service technologies.

Consumers are willing to adopt these technologies when they are easy to use and save their time and money. However, self-service technologies reduce the social interaction between consumers and retailer and may weaken the bonds between them. Hence, retailers must carefully decide the level and amount of self-service on their channels. (Berry et al. 2010)

An integrated channel system enables firms to establish a cross-channel return system that allows customers to return products recently purchased from another channel. While customers perceive this policy convenient the firm creates an opportunity for cross-selling when customers come to the retail store to return their online or catalog purchases. (Zhang et al. 2010)

Another basic practical implication of integration is to provide availability for customers. It may be that a store is out of stock of a certain product but in an online store a customer can order the out of stock item to the store or delivered directly to the customer. Retailers must be able and prepared to satisfy customer needs in a variety of ways as the future shoppers are predicted to switch channels easily and the switching cost are becoming less obvious, and so the bargaining power is shifting to buyers. (Griffiths & Howard 2009)

The convenience benefits customers get through multi-channel integration are such as increased amount of choices in the ways they can satisfy their needs, i.e. variety of channels to choose from, and ability to switch between channels easily so that the most convenient channel can be used in each situation. Therefore, depending on the product or service a customer is willing to purchase he or she can choose the best and most convenient channel or channel combination to satisfy that need. Furthermore, sometimes time is the issue and so a customer can choose a channel that is the best in terms of delivery time or effort. (Berman & Thelen 2004)

Goersch (2002) argues for a number of benefits resulting from multi-channel integration. The benefits he presents are such as increased awareness, trust and convenience as well as increased perceived control. Customers' risks tend to decrease and support available for them is enhanced as well as the level of personalization in the service interface.

Shopping often involves certain risks perceived by customers. Especially when shopping online, the likelihood of unfavorable outcomes exists due to the inability to confirm certain aspects necessary which can be done in a physical setting. Therefore, multi-channel integration offers retailers a possibility to mitigate certain risks perceived on one channel by complementing it with another channel where the perceived risks are smaller or there are none risks involved at all. (Chiu et al. 2011)

The benefits for a firm can be simplified in certain major factors, namely improved information and efficiency, reduced costs and improved profitability, and ultimately increased sales and growth. By looking at a firm's business model, despite the diversity of key performance indicators, a firm's efficiency, profitability and eventually growth can be considered as simple indicators of success. The framework presented later in this thesis will use these performance indicators as the essential success indicators of a firm's business model and strategy.

The following tables, Table 2.1 and Table 2.2, summarize the benefits of proper multi-channel integration for both retailers and for customers. Some of the benefits and their sources are interdependent and overlapping due to the complex nature of causalities involved in multi-channel integration.

Table 2.1: The benefits of multi-channel integration from a firm's perspective

<b>Benefits for a firm:</b>	<b>Source of the benefit:</b>
<b>Improved information</b> (e.g. Berman & Thelen 2004; Payne & Frow 2004; Stone et al. 2002)	Multiple touch points; integrated customer behavior data and customer profiles;
<b>Improved efficiency</b> (e.g. Berman & Thelen 2004; Zhang et al. 2010)	Synergy of complementing channels; integrated assets and information; adoption of self-service technologies; resource allocation;
<b>Reduced costs and improved profitability</b> (e.g. Rangaswamy & Van Bruggen 2005; Zhang et al. 2010)	Resource allocation; shared assets; improved retention and loyalty; economies of scale; spread fixed costs; adoption of self-service technologies;
<b>Increased sales and growth possibilities</b> (e.g. Payne & Frow 2004; Rangaswamy & Van Bruggen 2005; Stone et al. 2002)	Integrated customer service; attraction of high-value multi-channel consumers; cross-selling opportunities; improved customer understanding; differentiation; access to new markets; customer satisfaction and loyalty; consistency; targeting;

Table 2.2: The benefits of multi-channel integration from a customer's perspective

<b>Benefits for a customer:</b>	<b>Source of the benefit:</b>
<b>Increased convenience</b> (e.g. Rangaswamy & Van Bruggen 2005; Stone et al. 2002; Zhang et al. 2010)	Easy access to information; 24/7 shopping possibilities; variety of delivery options; improved availability; saved time and effort; possibility to return web orders in a store; consistency among channels;
<b>Improved service</b> (e.g. Payne & Frow 2004; Zhang et al. 2010)	Online support; purchase history; integrated loyalty programs;
<b>Increased satisfaction</b> (e.g. Noble et al. 2005; Goersch 2002)	Saved time and effort; reduced risk; customization and personalized offers;

## 2.4 Web integration strategies

This chapter aims to give insights to theories relating to the integration of two specific retail channels, namely a retail store and a company's web site. Furthermore, this part of the literature review will discuss the integration issues in the light of business models and e-business strategy. The integration of different channels and the related benefits for a firm and for a customer have been discussed in previous chapters, and so the aim of this chapter is on discussion about the topic in more limited scope. Specifically, the scope of this part is limited to the integration of retailer's stores to its website. The following text explores the relation of these two channels and their varying roles.

As previously discussed consumers' behavior and their needs vary and as a result channels are used differently in different situations. Hence, retailers need to understand what drives the customer channel choice and why. Often offline purchases take place after customers have visited various retailers' online stores for information. Sometimes consumers search information on a product from one company's website but switch to another retailer's retail store to purchase the product with a cheaper price or due to some other reason. Chiu et al. (2011) call these multi-channel customers as cross-channel free riders. In depth discussion of cross-channel free riding is beyond the scope of this thesis. However, it is relevant to discuss this issue to some extent as it is somewhat strongly linked to optimal multi-channel integration and customer retention.

In a complex and advanced environment of retail channels, customer purchase behavior has become ever more complicated and retailers' task of understanding and controlling this behavior has become increasingly complex as well. Online search engines provide consumers with the ability to quickly and easily gather information on products and services which further reduces the power of retailers to control consumer purchases. However, those retailers who are able to retain customers in this environment have advantage over competitors. (Chiu et al. 2011)

In order to reduce the risks associated with shopping consumers require various kinds of information relevant to their need from retailers. This information diversity includes product specifications, price information, communication messages, and information about different

delivery formats. Yet, sometimes the level of information does not meet with the expectation or the need of a customer. It may be that the information is insufficient or the company does not have what it takes to satisfy the need of that particular consumer. Each channel has a certain cost structure and a set of capabilities and so the functions it can perform are limited. Therefore, each channel can serve certain needs and other channels must complement it. The Internet is very convenient information source at a low cost, but it lacks certain capabilities possessed by a retail store, such as interpersonal expert advice. (Chiu et al. 2011)

As consumers seek to employ multiple channels achieving maximum utility they use combinations of channels in shopping. However, even though online and offline channels naturally complement each other, not all combinations end up being profitable and effective in serving customer needs. (Rangaswamy and Van Bruggen 2005)

According to Weinberg et al. (2007) firms need to understand customer experience holistically and use that understanding in the development of a multi-channel strategy. It is important to comprehend the channel integration from customers' perspective since failure in satisfying a customer on one channel may lead to the rejection of other channels as well (Chiu et al. 2011).

According to Bendoly et al. (2005) firms should see an integrated multi-channel system as a combination of interchangeable and mutually supporting channels that gains synergy through complementing online and offline channels. When customers use a multi-channel system, they familiarize themselves with a firm and develop a multi-channel portfolio mindset that decreases learning costs of interacting with a firm and increases retention. With a well-integrated multi-channel system, firms are able to better retain customers and decrease their propensity to switch between retailers after they have searched information from a company's website. (Dholakia et al. 2005)

#### **2.4.1 Strategic role of information**

Channel integration can be looked at from a number of perspectives. As discussed in this thesis earlier, the management of information and integration of it have important and central roles in multi-channel strategy. This chapter goes through briefly some aspects needed to

understand for providing the well-integrated combinations of online and offline channels and to succeed in attaining the benefits related to the integration.

Information can be categorized differently based on how it is gathered and used for. Park & Kim (2003) argue that it is important for firms to identify the kind of information they need and from whom this information is collected, and moreover how this information is used so that it will benefit the firm in the future. Customer identification has a crucial role in customer relationship management and thus should be carefully taken into consideration in information management.

Chiu et al. (2011) argue that in order to provide customers with a single retail entity perception, firms need to develop a system for informational and logistical integration. Without the integration of these underlying elements it is hard for a firm to provide value added multi-channel services to its customers. Hence, according to Chiu et al. (2011) for firms to succeed in multi-channel integration the following elements are seen central:

- 1) Develop and implement informational integration that allows customers to locate the nearest store, to check for availability, specification and other relevant information, to place orders and pay for them, and to register and manage online accounts
- 2) Develop and implement logistical integration for customers to be able to shop online and collect the ordered products from their nearest store as well as return web orders to the store

For successful multi-channel integration, both of the above mentioned elements are important. However, the technical and infrastructural requirements and their practical implications as well as operative management of these factors are beyond the scope of this study. Therefore, the remainder of this text focuses more on the strategic role of information and its integration rather than on the logistical requirements and supply chain implications related to the integration of multiple channels.

Park & Kim (2003) divide information into three categories based on the content, type of interaction and use. These three types of information are as follows:

- 1) Information of the customer: includes transaction information and personal data about customer behavior such as sales volumes, purchasing patterns and frequencies, preferences and profitability. This type of information is often applied in CRM and database marketing
- 2) Information for the customer: includes information that customers need about products and services, such as specifications, availabilities and other relevant data that customers might perceive useful prior and after buying a product or service.
- 3) Information by the customer: non-transactional data such as feedbacks, complaints, claims and propositions that are helpful in understanding customers and developing better product and service offerings.

Berry et al. (2010) support this view and argue for the importance of retailers to use channels in collecting and disseminating information of and for customers. They see channels also as a means to pull target customers to other channels, yet leaving a customer to decide which channel to use in interacting with a firm's retail services.

#### **2.4.2 Relative value of information in a buying process**

Information is important element in multi-channel integration. Firms need different types of information of their customers and vice versa. However, the value information contains for a customer's buying process in a certain product category may vary. Usually, consumers seek information in order to make sound purchase decision and to maximize the value of money spent.

Online channels are often used by consumers to gather information regarding product specifications, prices and alternative products for their purpose. While the web is a convenient and flexible source of information, a retail store adds a possibility to discuss alternatives and

get information directly from sales personnel. Furthermore, customers can see and feel the products they are planning to purchase. (Neslin & Shankar 2009)

However, as customers use channels also based on their prior experiences and expertise they may not need that much information with certain products or services. On the other hand, in some cases, a customer may have very little prior experience or expertise and therefore is seeking comprehensive understanding about a product. Hence, consumers' goals, expertise together with the characteristics of channels determine the way they interact and make transactions with retailers on different channels. (Dholakia et al. 2010)

Information contains utilitarian value that customers seek to attain regarding product or service attributes. This information increases customers' knowledge of the item they are planning to purchase and helps them evaluating it, and ultimately decreases the risk involved in the buying process. Often these attribute and price comparisons are conducted most efficiently through an online channel. (Noble et al. 2005)

Grewal et al. (2004) argue that more standardized products such as books, CDs, and computers have better potential to succeed in online sales due to the absence of certain physical quality risks of such products. Hence, the level of standardization seems to have impact on the need for tangible confirmation, and so the purchase process is more affected by the need for information regarding a product or a service.

Some service industries market product and service combinations such as travelling, music or financial services that are rather standardized in their nature but their purchasing requires certain amount of valuable information. These types of product service combinations tend to work through the online channel better than some more tangible products which require a more complex buying process. (Rajamma et al. 2007)

In summary, customer needs for information vary depending on many factors such as prior knowledge and risks involved, but also depending on the need for certain specifications that fit the customer's requirements. Different products and services require more or less information for a customer to make a decision, and so retailers need to know what type and how much information is needed. The amount of information needed and value of it are relative and some customers need it more than others.

### **2.4.3 Relative complexity of a buying process**

Purchasing some products requires more information than others, but the buying process can be complex even without the need for extensive information regarding the product. Some products are hard or even impossible to purchase without a trial. For example, buying clothes or shoes may be difficult without trying them on at first. Furthermore, in-store shopping experience is an aspect some consumers like. Some people like to go shopping, have experiences and compare and test products such as furniture. (Grewal et al. 2004)

Complexity in buying stems from a variety of issues. Certain aspects cannot be adequately represented digitally and they need sensory evaluation prior to purchase. Again, more standardized products require less evaluation and with bulk products the complexity in a buying process is lower. Interpersonal trust may also be an issue with certain products such as jewelry where a consumer has difficulties in evaluating the value of a product or choosing the right alternative for his or her purpose. Online channels often lack this ability to establish interpersonal trust and offer guidance in complex situations. (Grewal et al. 2004)

Consumers perceive certain risks involved in online buying, namely uncertainty that relates to the likelihood of an unfavorable outcome and possible consequences that relate to the importance of the financial loss. Risks such as financial, performance, time, physical, psychological and social risks are present in certain buying processes. Some of these risks are more actual in nontraditional shopping such as online shopping. The perceptions of risks might be decisive for customers' evaluations and buying behavior. Hence, these perceptions add another aspect in the complexity of purchasing products and services. Furthermore, these risks are seen greater in the case of more expensive products, and accordingly the purchases of cheaper products are perceived less risky. (Chiu et al. 2011)

According to Stone et al. (2002) customers who are planning to buy more expensive products tend to prefer visiting company website first and do some online research before visiting a physical store to buy the product.

Different products require different buying processes and so certain sectors are slower to adopt multi-channel strategy than others. For instance, in fashion clothing customers tend to want to test and see the product. Multi-channel systems such as in-store pickups provide

convenience for multi-channel consumers who like to shop online but require tangible confirmation before the final decision, or do not want to pay for shipping. (Griffiths & Howard 2009)

Some products and services share the characteristics of each other and are more difficult to place in either end of product-service continuum. For example, travel and tourism services can be classified as information-based business and despite the variations in the output of this type industry the products it offers for customers are relatively standard and easy to market online, whereas some more tangible products do not work as well through the online channel. Despite the fact the buying certain tangible goods, such as clothes or groceries, do not require much comprehensive information they require more or less tactile or visual definition of quality or other aspects related to the fit to customer needs, thus the sales of these type products have limitations in the online channel. (Rajamma et al. 2007)

Porter (2001) argues that more customized and engineered, i.e. more complex and less standardized, products are often bought directly which in this case translates to a physical store although the buying process may be facilitated by Internet tools. According to Porter (2001) commodity items that are more standardized can be purchased via digital channels. However, experts' opinions by the sales personnel are often helpful and provide extra value services for customers.

According to Berman & Thelen (2004) the more complex the buying process is the more customers may encounter unexpected questions and require person-to-person interaction and possibly to inspect and test the product. So, in summary, the relative complexity of a buying process has certain implications for the use of multiple channels in the sales of these type products that require more complex interactions with the seller.

In order to understand the implications for the channel use, retailers need to understand the elements causing the complexity. Tangible confirmation, a need for services during the process such as installations, customization, and various other factors increase the complexity of a buying process, and customers need to interact with a retailer on a more intricate level than with less complex buying processes.

#### **2.4.4 Channel functions and customer behavior**

Multi-channel availability is seen to enhance loyalty and multi-channel consumers often have better sales volumes than those customers who take advantage of only one channel. The customer satisfaction perspective views multi-channel strategy as a provider of better and more convenient service to customers and this way enhancing the customer satisfaction and therefore retention of high value customers. This view sees an integrated multi-channel system as a channel combination developed for customers so that they may use whichever channel they prefer at a certain stage of a buying cycle. (Neslin & Shankar 2009)

According to Porter (2001) the Internet has lowered the barriers to entry and increased competition in many industries while it has also made it easier for consumers to search information conveniently at a very low cost. This has reduced switching costs as consumers are now more aware of alternatives and prices. Thus, one of the goals of a multi-channel strategy is to create a within-firm lock-in that helps firms retain consumers. It is important to understand this since firms are increasingly operating in environments where research shopping and cross-channel free riding are common. In other words, firms need to develop their multi-channel strategy so that it increases the possibility of a customer to do both search and purchase within the same firm rather than switch to competitors at some point of a buying process (Neslin et al. 2006).

An integrated channel system that enhances within-firm lock-in makes it more difficult or costly for customers to switch to a competitor's channel as they perceive switching costs caused by the possible switching of a service provider. Firms should plan their channel integration strategy keeping in mind the switching costs. That is, the cost a customer associates with the switching between providers.

Switching costs are costs related searching, transactions and learning of new ways that are often involved when customers change a provider. Furthermore, cognitive effort and emotional attachments as well as certain financial, social, and psychological risks affect consumers' perception of switching costs. However, not many people explicitly evaluate these aspects as they often remain on an unconscious level before the consumer actually is confronting the possibility of switching to another provider. If a multi-channel system is planned and implemented so that consumers can search and complete transaction

conveniently and smoothly, they have fewer reasons to confront the switching costs and so their loyalty is increased. Since multi-channel consumers evaluate the multi-channel system holistically the multi-channel strategy must provide holistic customer experience that satisfies customer needs at each stage of a consumption process. (Chiu et al. 2011)

In multi-channel environment consumers use specific channels to find desired products and services and fulfill their different consumption needs. The decision of using a certain channel at a certain point of a buying process depends greatly on the type of a need and situation. However, whatever the situation is, consumers tend to choose a channel based on their expectation of the channel's ability to satisfy their need at the lowest possible cost relative to the benefits they obtain in the process. (Noble et al. 2005)

### *Channel attributes*

By using multiple channels, retailers can create integrated environment where consumers can combine their use of channels during the buying process and satisfy part of their need in one channel and possibly complete the transaction in another. For a multi-channel retailer it is important to understand the constraints and advantages of different channels when planning and developing their multi-channel strategy. Probably the most fundamental question to answer is whether the channel can and should be used primarily for purchases or for other such as informational purposes. In other words, some channels can be used for purchase and delivery of products and services while others' possibility to perform these functions may be limited or even nonexistent. Information channels aim to provide product and service related information for consumers to make informed decisions and obtain after sales support and information. Information channels, in this context, the Internet, vary in levels of interactivity and their ability to deliver a product is limited to digital goods. (Dholakia et al. 2010)

Although the primary function of an information channel is to provide customers with information and support, retailers should not forget or omit the two-way role of information and the possibility to use channel interactions for gathering information regarding customer interests and behaviors. For instance, data regarding the online traffic on a firm's website can be tracked and used for developing business functions to fulfill customer expectations better.

Another fundamental distinction between channels is whether they are physical or virtual. A physical retail store channel has certain distinct benefits over virtual channels such as

allowing consumers to use all five senses in the buying process. Furthermore, customers visiting a retail store are able to get personal service, use cash payment, and acquire the possession of a product instantly. However, a physical store requires a physical presence of a customer and so it takes time and effort to visit the store and to realize these benefits. In addition, the opening hours, geographical proximity and the level of self-service and the availability of sales associates in the store may not be as convenient for a consumer as desired. (Zhang et al. 2010)

Dholakia et al. (2010) discuss the distinctions between physical and virtual channels. For this study, the most relevant of these distinctions are the degree of accessibility, the nature of the channel interface and the degree of channel flexibility, and the ability of a channel to store customers' behavioral history. These aspects are discussed next in more detail.

Regarding the accessibility, the advanced technological applications especially wireless Internet and mobile devices enable virtual channels to be accessed by nearly anyone around the world while physical stationary channels are geographically limited to only certain amount of consumers. A sensory trial of a product is important in many occasions prior to purchase, but advanced Internet applications have made the gap between the virtual and physical inspection of a product increasingly narrower. Another aspect related to the geographical proximity of a physical store is its ability to offer an assortment of consumable products conveniently without an effect on pricing. That is, smaller convenience stores located near consumers may need to charge premium prices compared with large supermarkets that are often located further. (Dholakia et al. 2010)

The interface through which a customer interacts with a firm differs between physical and virtual channels. Where the interface of a retail store is fixed by the retailer a virtual store may offer customization suited to the individual needs, tastes and preferences of a customer. (Dholakia et al. 2010)

Related to the interface, the flexibility in the organization and portrayal of the assortment offered by a virtual channel allows customers to organize product categories to meet their cognitive structure for that category, whereas a physical channel does not allow customers to have the personal arrangements of product categories. The arrangement of these product categories may have impact on a customer's information processing ability and virtual

retailers might have an advantage portraying their assortment in such manner that a customer can easily process the information, while the virtual store automatically offers cross-sales opportunities based on prior interests. Then again, physical stores may have certain advantages on impulse buying that may be missed due to customers' preplanned product and service purchases on pre-categorized virtual channels. (Dholakia et al. 2010)

The behavioral data collected in a physical store is often limited to customers' identification through a membership card that may be forgotten, while online shopping is mainly possible by first registering and logging in using an account that collects various kinds of data regarding customer behavior, interests and purchase history. Hence, virtual and physical channels differ in their ability to store customer information for future purposes. (Dholakia et al. 2010)

Not only is it important to consider channel features and capabilities in the design of a multi-channel system and strategy, but product features have certain implications as well. Product and channel features greatly impact if not determine the scope of possible channel configurations for certain products and in relation to retail channels. This said, retailers need to understand that not all combinations of channels and products are likely to succeed and reach economic viability. As previously discussed the Internet is characterized by its ability to gather and share vast amounts of information yet its ability to provide certain functions necessary in some buying processes is limited. Even though the Internet is superior in comparison with printed catalogs in many ways it still lacks certain elements natural to a physical store, namely, its distribution potential is limited to digital products and services. (Müller-Lankenau et al. 2004)

#### *Channel combinations and complementing channels*

Although it is possible to compete successfully using only one channel, more often the use of only one channel may lead to unused potential. Hence, retailers need to carefully plan their possible multi-channel strategies. As consumers seek to maximize the value of their shopping experiences they no longer visit merely their local dealer. For example, car buyers may compare different models online before a test drive and television buyers carefully study the specification of different television types rather go directly to their local retailer. In case a firm decides to expand its business and implement a multi-channel strategy it needs to

decide whether the channels it uses should offer the same products and services or whether the channel functions should be divided based on the product features and channel capabilities. As said, it is possible to have one channel performing all functions required in a buying process but in order to achieve optimal performance in each channel it is essential to define the role of each channel and the way they interact with customers. (Stone et al. 2002)

Sometimes customers do not need to receive a product instantly and they are willing to wait certain amount of time for a delivery of the product. This may be due to aspects such as a lower price or saved effort. However, sometimes consumers want to secure an item without delays in a minimal amount of time. Channels' ability to deliver a product differs substantially and the only possibility to acquire a product instantly is to visit a physical store and collect the product personally, whereas purchasing through the Internet or through a catalog incurs a time delay. Therefore, consumers' decisions on which channel to use vary depending on the delays in delivery as well, and so, brick-and-mortar stores provide consumers with the greatest value in case they want to receive the possession of a product instantly. Then again, the Internet allows consumers to check availabilities and make sure a product is available in a specific store they are planning to visit. (Noble et al. 2005)

It is evident that complementary use of online and offline channels has certain advantages appreciated by customers and certain cost and scale advantages that benefit a retailer. In some cases, both channels can be used for completing transactions and even for distribution, but in some cases the other channel is mainly for support or an information source to guide customers to the preferred channel. Some product or service features may be such that regardless of the possibility to complete transactions on any channel customers still tend to make the purchase on their preferred channel. (Müller-Lankenau et al. 2004)

Firms seek operational efficiencies, cost savings and access to new customers. Common tools for attaining these are self-service technologies applied on both online and offline channels. Consumers use these technologies to save time and money, or possible to eliminate a human encounter. Obviously, this requires the technology to be easy to use. However, even though both firms and customers may benefit the self-service element, adding a personal service in either channel type may lead to well compensating competitive advantage. (Berry et al. 2010)

It is increasingly relevant to traditional brick-and-mortar retailers to consider the combinations of the Internet and traditional methods. However, electronic retailers can also benefit from multi-channel strategy. In some cases pure Internet approach offers the best possibility to meet the needs of a particular customer segment or that the product or service features can be best delivered through online channels without the need for a physical store. (Porter 2001)

So far the discussion in this thesis has explored multi-channel strategy and a consumer's channel choice mainly from the view point of channel capabilities and customer needs. However, the following chapter concentrates more on discussing channel functions together with the offering characteristics and their impacts on channel choices and ultimately the effects on multi-channel strategy.

#### **2.4.5 Different web integration strategies**

Channel functions vary depending on the channel attributes and offering characteristics. Hence, different strategies for different combinations of products and channels can be identified and developed accordingly. However, for understanding the implications a retail offering has for channel functions, it is necessary to define the term. In this study, the term refers mainly to products, but in a retail business the products are often accompanied by services, and so the combinations of these two are referred to as a firm's offering.

Müller-Lankenau et al. (2004) classify online and offline channel combination strategies into four categories that can be partially linked to the offering characteristics matrix constructed later in this thesis. These four categories illustrate strategy alternatives resulting from different uses of channel combinations. The four categories discussed by Müller-Lankenau et al. (2004) are as follows:

##### *Offline-dominated strategy*

In an offline-dominated strategy, a customer prefers using an offline channel as a primary channel for making purchases. The role of an online channel in this strategy is to support the primary channel by providing information regarding in-store offerings and store locations.

In addition, after sales support and information can be provided for customers through the online channel, but the transactions are primarily directed to the offline channel. The role of channel integration in this strategy is to provide support for the offline channel and efficiency for marketing. Firms pursuing this strategy may be using a sophisticated distribution systems and their offering includes products that enable a possibility for strategic differentiation through in-store customer advisory and sensory cues that are limited in online environment.

#### *Isolation strategy*

Müller-Lankenau et al. (2004) define isolation strategy for a situation where a firm pursues separate and independent strategies for its online and offline channels. This type of multi-channel strategy does not support nor encourage customers to take advantage of multiple channels, but to purchase products through which ever channel they prefer. Reasons behind this type of multi-channel strategy are such as the avoidance of channel conflict, or possibly targeting different customer segments with different pricing schemes. Channels may be even operated under different brand names in this strategy.

#### *Online-dominated strategy*

Firms using online-dominated strategy prefer to guide its customers to the more cost effective online channel and use a cost-intensive offline channel to complement the online channel and offer customer service, information and support for a customer preferring to use the offline channel. The offline channel may be designed to offer only a limited assortment compared with the dominating online channel that offers a full range of products. Hence, both channels are capable of completing transactions or taking orders, but the primary aim of the offline channel is to strengthen the sale of the online channel. Retailers that have been previously operating purely online may try to access offline markets by complementing its online channel with an offline channel in order to reach a wider range of customers and to boost its sales.

### *Integration strategy*

In this strategy, the channels are seen as highly complementary and aimed to provide information and support at different stages of a buying process. The role of the online channel is to provide convenience for the purchase process. Limitations in a channel offering are usually based on technological restrictions and channel attributes rather than a strategic decision of favoring one channel over another. For instance, a certain product may not be delivered or sold through an online channel but relevant parts such a software or essential documents can be delivered using the online channel. Hence, the channel functions are integrated taking into consideration the product attributes and channel capabilities to provide maximal utility for a customer.

Based on the discussion in the previous chapters regarding the relative of information for making a purchase decision and the relative complexity of a buying process certain assumptions can be made. It appears to be that the more complex and customized buying processes should favor offline-dominated strategies and integration strategies due to the tangible confirmation often needed in these processes which is possible only on an offline channel. On the other hand, more standardized products can be sold through an online channel more easily as they do not necessarily require tangible confirmation and their sales depend more on the provided information. Therefore, it can be assumed that online-dominated strategies fit well for more standardized products and less complex purchase processes. The strategy alternatives given in this chapter serve mainly as demonstrating examples, and rather than being exclusive their roles may often overlap in real life.

#### **2.4.6 Business models and the Internet strategy fit**

Whatever strategy a firm has the management of customer data and integration of information can become a source for a competitive advantage. Different channels can be used to reach and acquire customers in different segments, and the channels vary in customer acquisitions costs as well. In the process of planning an integration strategy a firm should consider questions such as: “Which channels to employ?”, “What are the costs versus benefits?”, “How should the resources be allocated between channels?” (Neslin & Shankar 2009).

Firms need to determine effective individual channel strategies and allocate their resources accordingly. Therefore they need to understand the value customers derive from each channel and how these values can be maximized through the synchronizing multiple channels. This means that knowledge regarding customers' use of different channels and the derived value from each channel is crucial in understanding channel switching. (Slack et al. 2008)

### *Operative fit*

Customers buy products and services based on their needs. One's ability to satisfy these needs is affected by key dimensions such as availability, quality and variety. These dimensions are called merchandise motivation. Physical stores have traditionally had the advantage providing all these dimensions for customers at the same time enabling consumers also to have an immediate possession of a product. Furthermore, customers have been able to inspect and compare qualities physically by touching and feeling the product.

Now, with online stores, customers can enjoy certain efficiencies in their shopping and save time, effort and even money by shopping online. However, lack of instant gratification often related to virtual shopping reduces the utility of saved time. Hence, the channel choice a customer makes is a complex issue with a number of guiding factors where assurance should not be left without consideration. Assurance is another key motivator and it includes confidentiality, shopping security, complaint resolution, warranties and interaction with a seller as well as customer service. Physical stores have had an advantage in this also as it has more tangible nature and the presence of human interaction strongly attached to it. There is also a better chance for retailers to establish human rapport in face-to-face conversations with customers. In order to build and foster fruitful and valuable relationships with customers, retailers must have constructive interactions with them especially in the case of more complex products. (Rajamma et al. 2007)

Convenience is an important factor and a key motivator for customers when selecting a retail channel and provider. Both online and offline channels include certain convenience factors attached to them but what some consider convenient may not be as important convenience aspect for others. Although web-based retailing is popular and convenient with some products and services it may not be suitable for all types of offering. Generally, products that require sensory experience, evaluation and trial prior to purchase such as clothing are less likely to

succeed through online channels that lack the ability to provide various types of sensory trials compared with more standardized products such as books, music, and electronics which do not necessarily need this type of evaluation and testing. A strong brand and the degree of standardization in products are often seen as factors reducing certain risks in a buying process and which help consumers in their evaluations. With standardized products and known brands consumers know better what to expect of a product or a service. (Grewal et al. 2004)

Tangible confirmation is seen as one of the primary reasons behind a consumer channel choice. Consumer electronics have had the highest volume in multi-channel retail for a number of years and are likely to remain in this position for now. Tangible confirmation may not be as much required in this category as it is with clothing. (Griffiths & Howard 2009)

Integration of multiple channels is a complex task and retailers should understand how different types of products require different things for their purchase process and the ability of a channel to provide these elements for the process differs. Hence, it appears to be that a certain type of operative fit is needed in the integration of multiple channels that pays attention to product characteristics, channel attributes and consumer behavior in a buying process. The term operative fit between the firm's offering and the channels is used in this thesis to describe the optimal alignment of offering characteristics and channel attributes in order to avoid the unnecessary provisions of channel functions and on the other hand to describe the alignment of these elements in order to provide convenience increasing functions efficiently for customers.

### *Strategic fit*

Customer retention and loyalty are important for the long-term profitability of a firm. Therefore it is central also in multi-channel integration strategy that the firm's fundamental ideas of value creation are aligned with the way it operates its channel combinations. That is, a business model must reflect the firm's generic strategy decisions regarding how and what kind of value it seeks to provide for its customers, and within that the multi-channel integration must be aligned to these same principles in order to run the system in a way that is consistent from a customer's perspective. (Grewal et al. 2004)

Another type alignment need identified in this study is the strategic fit between a firm's multi-channel integration strategy and its generic strategy. It is relevant to discuss the channel

functions and the Internet strategy together with the concept of a business model that essentially directs retailers' activities. In the Internet retailing, as in any retailing, a business model is a fundamental director of business activities and daily functions. Business models reflect generic strategy decisions and variations in business models derive from a number of factors such as location, pricing issues, and increasingly from the integration of online and offline retail activities.

In traditional retailing, a store image has had significant amount of importance. Early Internet retailers and their online stores were mostly positioned as low-cost providers, and the development of the position strategies of Internet retailers towards an upscale store image often failed since the Internet has limited ability to convey an upscale image to consumers. Furthermore, the use of a web design as a distinct signal of status is limited as any competitor can copy or imitate it relatively easily. In other words, current technology greatly limits firms' ability to effectively convey messages regarding the position differentiations of their retail store and business model. (Grewal et al. 2004)

According to Slack et al. (2008) for a customer's channel choice the most influential channel attributes vary between different product categories and with some products certain attributes are more important than others. For instance, it tends to be that in the case of book retailing, the ease of finding information is more important than in the case of flowers where customer service is considered to have the greatest influence in a channel choice. This implies that retailers need to carefully think about the extent and level of service provided, and how they ultimately want to stand out from rivals. (Slack et al. 2008)

In terms of Porter's (1985) generic strategy alternatives the service component can be seen as a way to differentiate by providing extensive high quality service with the product offering, or alternatively limit the amount of customer service thus going for lower costs and prices. Often consumers have certain expectations regarding the level of service provided on each channel, and especially in the offline store, the role service is expected to be higher than in the online store due to the lack human interaction in a virtual setting. Hence, the channel functions should be such that the expected level of service for the certain target group of the channel users is provided and that this level of service is aligned with the generic strategy decisions. (Stone et al. 2002)

Another aspect in customer service is the use of self-service technologies. Berry et al. (2010) discuss self-service technologies that firms provide in some cases to assist customers in a physical channel. Again, it is important to carefully design the use of these technologies so that it is aligned with the firm's image.

When a company decides to expand and integrate multiple channels into its business, it needs to consider the functions of its channels carefully, and decide whether all its channels support the same functionality areas and how these functions relate to its original business model and strategy. Sometimes the channel functions are designed to meet customer preferences to optimize revenues in different target segments. (Stone et al. 2002)

Although an online channel is a low cost and convenient way to acquire information and possibly purchase goods from a customer's perspective, running a well designed and up to date website may be expensive for a retailer. Furthermore, as the order fulfillment and distribution are crucial for online shops the distribution system that a firm currently employs may not be fit for the delivery of online purchases. Updating the distribution system and having skilled labor required for running the multi-channel system can be expensive. In addition, retailers that decide to integrate additional channels into their existing business model must to some extent provide incentives for their customers, especially for new ones, to use these different or alternative channels. Once a retailer has acquired customers for its multi-channel system with various incentives it has to have a successful business model on which the system is built. Otherwise it may be difficult to retain these customers given the price transparency present in an online environment. Without proper integration to the original business model and value creation system customer loyalty suffers especially since the switching costs are relatively low. (Grewal et al. 2004)

Berry et al. (2010) argue that due to the transparency of the marketplace firms need to have other incentives for their customers than mere price offerings. Thus, retailers must design their multi-channel systems to provide greater convenience, availability, superior quality and service guarantees to increase customer value. Recent developments of social media have driven companies also to take advantage of different types of Internet applications in creating favorable associations with their brand and strengthening customers' trust in them and their relationship. (Berry et al. 2010)

However, in some cases, price related incentives on the online channel may serve as a good promotion aimed to increase the offline store traffic, or the other way around, to motivate offline customers to visit the online store. In addition to discount prices, customers are exposed to cross-selling opportunities in these situations. Furthermore, a customer may be provided an option to pick up their online orders from the retail store and while they are in store they are again offered cross-selling items. This type of channel integration increases cross-channel traffic and enables better chances for cross-selling and eventually better sales volumes. (Neslin & Shankar 2009)

In the next part of this thesis, the theories and aspects discussed in this literature review are combined into a conceptual framework that aims to look at multi-channel integration in a more holistic way. The framework consists of elements related offering and channel characteristics, and it aspires to illustrate their roles in value creation and ultimately in the success of a firm's business.

### **3 THEORETICAL FRAMEWORK AND METHODOLOGY**

The first part of this chapter focuses on the theoretical framework and aims to conceptualize multi-channel integration and integration strategy through its elements. The latter part describes the research methodology and discusses the elements and reasons behind the methodology and the data used for the empirical study of this thesis.

#### **3.1 Theoretical framework of the study**

This chapter aspires to combine academic research regarding multi-channel strategy elements to provide more holistic understanding about the impacts of channel attributes and product and service features and characteristics on multi-channel strategies. The relative value of information in a buying process and the relative complexity of the interactions leading to sales are put together in a conceptualizing matrix that aims to illustrate alternative positions that affect the integration of a firm's online and offline channels. This matrix is also used as a part of the theoretical framework that aims to describe the relationships and roles of a channel integration strategy and a firm's value creation mechanism as well as their relations to a firm's success.

##### **3.1.1 Offering characteristics matrix**

As discussed earlier, both product and channel features are fundamental denominators affecting the design of multi-channel systems. Channel functions are ultimately determined by the channel configurations with different types of offerings and not all of these configurations are successful and economically viable. As a result integration strategies which derive from the product-channel combinations can be either online or offline dominated. That is, the integration strategy may prefer either one of the channels or in some cases both of them. In a case where one channel is preferred over the other the other one may be playing an important complementing role in customer satisfaction.

The offering characteristics matrix developed for this study has its roots in the channel alternative matrix of Payne & Frow (2004) as well as in the service process analysis matrix by Tinnilä & Vepsäläinen (1995). The matrix constructed for this study aims to illustrate the value of information in a buying process on the vertical axis and the complexity of a buying process on the horizontal axis. In the resulting matrix four relatively distinct quadrants can be identified. These quadrants demonstrate offering characteristics that affect the buying processes of the products with these characteristics. Although the quadrants are illustrated as distinct the axes should be perceived as continuums, rather than either or type of spectrums. Furthermore, a firm’s position within a quadrant can vary and so the firm may represent certain area within a quadrant rather than the whole quadrant.

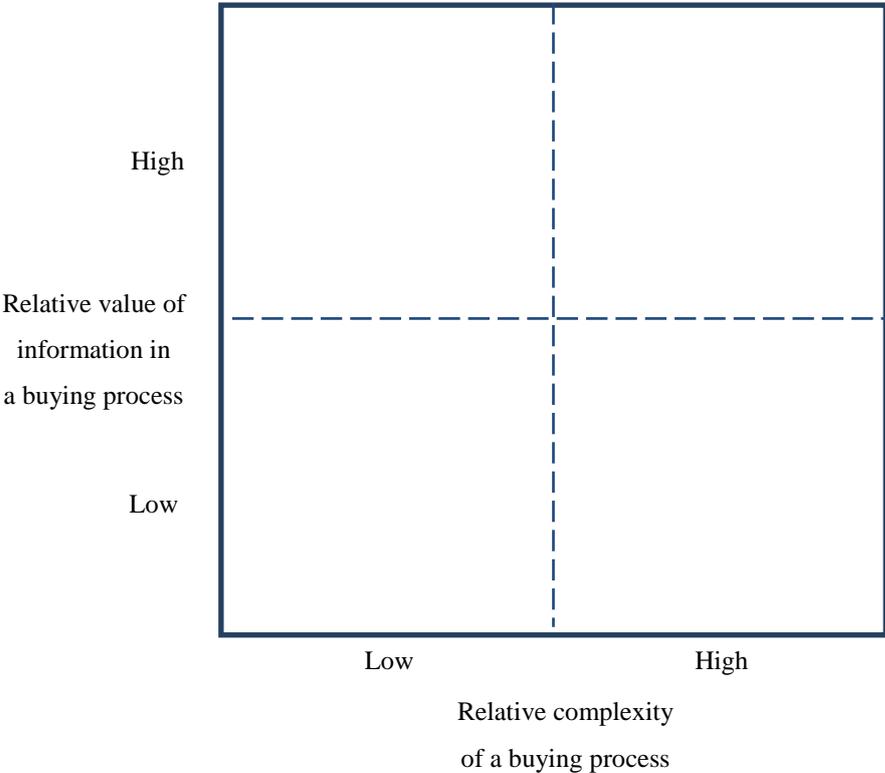


Figure 3.1: Offering characteristics matrix

A firm’s position on the matrix is basically determined by the level of relative complexity involved in a buying process and the role and the value information in the process. Characteristics of a product offering determining a firm’s position are measured on an abstract continuum, but for simplification the continuum is divided to a high-low scale. The perceptions regarding the value of information and relative complexity in a buying

process are somewhat subjective and there seems to be no system for the quantitative measuring of these attributes in the academic literature.

Due to the subjective nature of these attributes, certain amount of variation exists regarding the perceptions of a firm's position on the matrix. The distinction between high and low position on an axis is made based on common understanding regarding the roles of these attributes in a buying process. That is, certain products and their buying processes are commonly seen requiring less complex interactions than others, while some products have certain inherent characteristics that require either customization or testing prior to the purchase making the process more complex.

In cases of standardized as well as in more customized products the suitability for a specific need varies and therefore information is required in the process to make the distinction between suitable and unsuitable product. The value of this information varies and some products require more information than others. The literature review in this thesis included some examples of product categories that represent these attributes, yet the general classification is still somewhat subjective.

To a certain extent, the position on the matrix determines the web integration strategy a firm should pursue. Channel characteristics determine and limit the possible functions of each channel, so the ways a retailer can use a channel and integrate it into its business depend on these characteristics. Hence, to avoid extra costs and to find an optimal way to fit a channel role in the present business model a firm must carefully design its channel roles and functions with regard to the characteristics of its offering but also with regard to the generic strategy it pursues. In summary, a firm's position in this matrix poses certain limitations and directions for the integration of online and offline channels in that firm.

### **3.1.2 Web integration framework**

A broader view of web integration strategies and business models is needed to understand their roles in value creation and ultimately in a successful business. The conceptual framework presented in Figure 3.2 illustrates the role of offering characteristics and channel attributes in web integration strategy, and the relations of web integration and generic strategy

decisions with a business model and how these ultimately contribute the success of a business. More specifically, the framework illustrates the components of web integration strategy, and the strategic fit between the integration strategy and a firm’s business model.

By looking at the benefits of multi-channel integration discussed in previous chapters, multi-channel integration can be seen as a part of all generic strategy alternatives, so the important decisions a retailer needs to make concern fitting the web integration strategy to the firm’s generic strategy, and how this alignment is reflected in the firm’s daily operations. As discussed earlier in this study, the Internet strategy should not be seen as separate from a firm’s original business model, but the same components of success should be applied on other channels as well, and the Internet should be seen as a strategic and operative complement to the offline channel. Hence, in the framework, the strategic fit represents the alignment of a firm’s Internet strategy with the firm’s generic value creation mechanism.

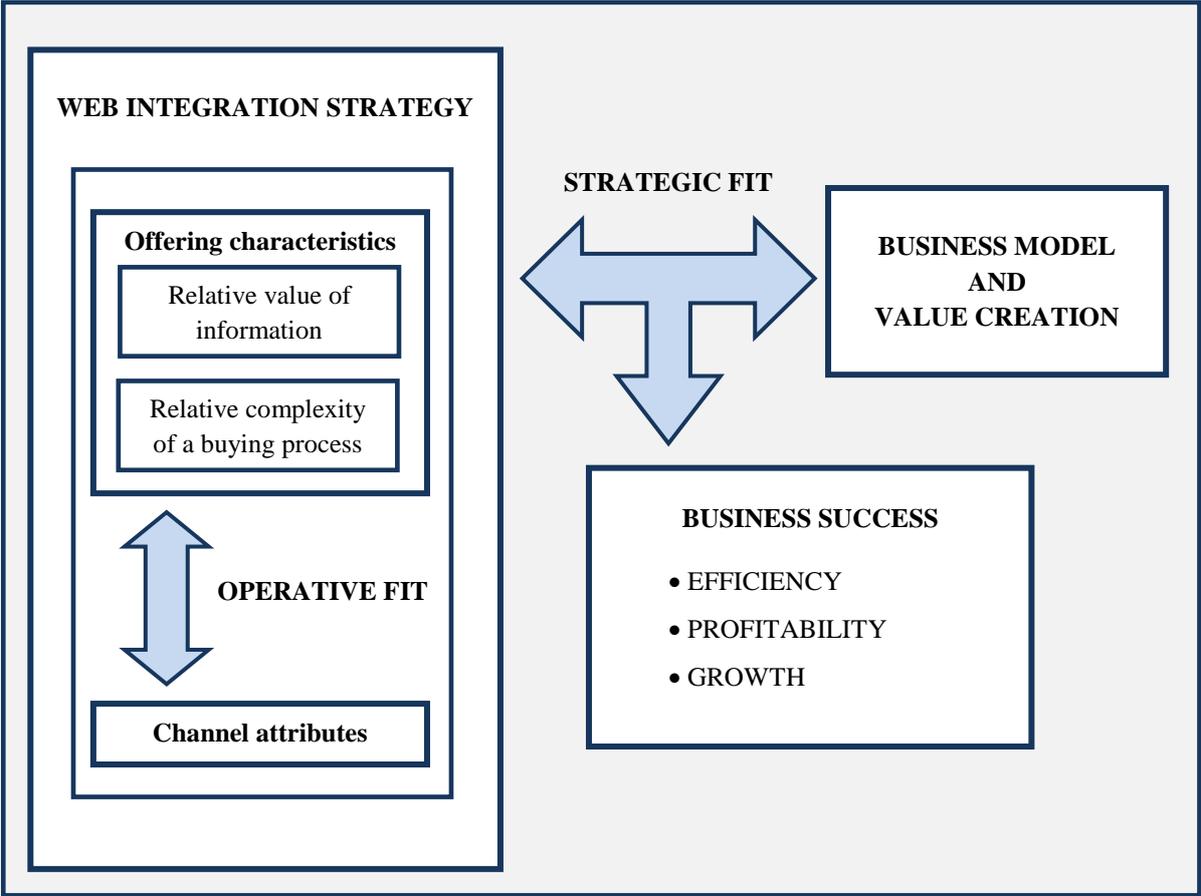


Figure 3.2: Web integration strategy and its role in value creation

The framework can be divided into three main parts. The first part is the web integration strategy that consists of the offering characteristics and channel attributes. A firm's position on the offering characteristics matrix has certain implications for the channel roles and functions as a result of customers' preferences and their needs. Together with channel attributes the offering essentially determines different web integration strategy alternatives and the roles of online and offline channels in the delivery of products and services to customers. Operative fit refers to an optimal alignment of channel use and offering characteristics in a way that provides convenience for customers in multi-channel environment efficiently but avoids extra costs resulting from useless channel roles and functions.

Another part in the framework is a firm's business model and value creation. This simply illustrates a firm's value creation mechanism. The idea of this part is merely to depict its relation to channel integration strategy and the importance of the strategic fit between them. As discussed at the beginning of the literature review part, a business model is seen as a translation of generic strategic decisions into more operative form. Therefore, the defining element of a business model in this framework is the generic strategy position of a firm and how it translates to creation of value for its customers. The generic strategy position includes decisions such as a firm's view regarding the level and quality of service it includes in its offering relative to other industry performers. More generally, the generic strategy defines whether the firm pursues a differentiation strategy or a cost leadership strategy, or possibly a focus strategy, and ultimately how and what kind of value the firm aims to provide for customers.

The third part of the framework that ultimately measures the performance of a business model and a strategy is the firm's success. Success can be assessed with a variety of indicators. An obvious measurement is to simply compare performance with the set goals. The goals listed in this thesis relating to successful multi-channel integration are such as improved efficiency, profitability, and growth. Although there are many key performance indicators for measuring success it is now relevant to look at these three indicators of success which have been discussed with the benefits of multi-channel integration previously in this study. An obvious assumption in this study is that alignment of web integration strategy and generic

strategy that results in operative and strategic fit helps firms to leverage efficiently more value of multi-channel integration and ultimately leads to improved performance.

### **3.1.3 Operative implications of the framework**

The following text discusses some practical and operative implications, of the offering characteristics matrix presented in Figure 3.1 and of the theoretical framework in Figure 3.2, for channel integration and how the quadrants in the Figure 3.1 can be defined in more practical terms.

It can be noted that the following operative implications that result from different alternative integration approaches follow somewhat similar classification and share similar characteristics as the different strategies presented by Müller-Lankenau et al. (2004) discussed earlier in this study. However, in this study, the weight is more on product attributes and on their relation to channel capabilities, and their mutual fit as well as the fit to the firm's generic strategy.

*High relative complexity of the buying process – Low relative value of information in the buying process*

When a retailer's offering consists of products that require complex interactions in the buying process, or the nature of the product offering is more customized rather than standardized, and when the information adds a little or none value for the purchase process, the need for a physical store is increased and customers tend to need a tangible confirmation of their purchase. That is, customers want to touch, feel and trial before making the purchase decision.

The role of the Internet can be seen to support an offline channel and provide necessary information for customers. That is, the role of an online channel in this strategy is mainly in supporting marketing, and to exhibit a firm's offering availabilities. A retailer's web site should include relevant information regarding opening hours of the store, store locations, the availabilities, the offering specifications, and possibly relevant documents and instructions in digitalized form for customers to conveniently acquire as an after sale service.

In some cases, however, integrating an online store is possible although the need for tangible confirmation may limit the popularity of the web store. It may be that parts of the offering are sold through the online store while part of it is sold only in a physical store. Therefore, firms willing to sell products that require a more complex buying process should provide customers with a broad range of aiding applications in the online store. For example, a variety of pictures from different angles of a product helps customers more in the assessment process than providing just one picture of the product. In addition, providing customers with a possibility to collect the ordered products from the nearest store may lower the barrier to make online purchases for more complex and customized products. While doing this, a firm increases its chances for cross-selling to a customer returning a web order in the store.

*Low relative complexity of the buying process – Low relative value of information in the buying process*

A retailer with an offering with both low complexity and information value sell standardized products which to some extent can be purchased with very little information. This type retailer can take advantage of both online and offline channels in selling their products. The integration does not necessarily bring much added value for customers and different channels may be targeted for different customer segments. Furthermore, in some cases a retailer may not need a physical store in this category as the standardized products can be purchased without physical confirmation and testing.

The web channel can perform core functions in this strategy provided that it is supported with advanced distribution systems. The role of the offline store can be seen both as a primary delivery channel or a support providing a service touch point for customers. Due to the standardized offering and relatively little variation between rivals, the competition in this strategy quadrant is mainly based on pricing. Value creation for customers is primarily based on the quick and easy delivery of products in a relatively low price. Variations in the level of pre-purchase service and after-sales support allow firms to differentiate from each other in this quadrant, but due to the effects of increased service quality on cost structure it may be difficult for firms to remain profitable in the market where customers' switching costs are low and price comparisons are quick and easy.

An example of a firm in this quadrant would be an online music, movie or video game store. Selling CDs and DVDs requires no tangible confirmation and a customer often knows already what to look for in terms of a band, a movie, or a video game. More value can be provided by using web applications that link the preferences of customers with similar interests as well as purchase history to offer a customer a product of his or her interest. Furthermore, in the case of products in digitalized form, the need to integrate a physical store or a delivery channel into the web store is even more reduced.

*Low relative complexity of the buying process – High relative value of information in the buying process*

When information contains something valuable for a customer in a buying process but the complexity of the process is relatively low and does not necessarily require physical examination firms should integrate its online and offline channels to enable the completion of transactions on both channels. In this quadrant, mainly product specifications and its suitability, determined by this information, to a customer's need are relevant in a buying process. The Internet can be used to purchase goods and the integration to physical store benefits both the retailer and the customer in a number of ways.

Consumer electronics retailers, bookstores, and retailers of products with more intangible nature are usually positioned in this quadrant. For example, travel and movie ticket purchases can be made through both online and offline channels although the consumption in the end must take place in the physical setting. Here the Internet provides consumers with a convenient platform to search for alternatives and make purchases while the seller is able to gather information about consumer preferences and behavior based on the online activity. However, in some occasions customers can perform its part completely without the Internet and satisfy the need in the store as well (buy tickets from a train station or from a movie theater). Furthermore, despite the fact that the products in this category are relatively standardized there are consumers who still prefer tangible confirmation, especially with more expensive products, and are willing to see the products, for example an electronic device, in its true size and shape before buying it.

The ways for value creation are many, and an important distinction between firms is the amount and quality customer service it chooses to provide. The channel attributes vary in

their ability to provide service to the buying process and a physical channel can be added to improve the provision of service and to set a firm apart from the competitors. However, it is important to understand the Internet channel's meaning as an extension of the brand image in the provision of service. If a firm is positioned as a high quality service provider, the use of the Internet should be aligned with this position and aspects of good customer service should be, at least to some extent, applied online as well.

*High relative complexity of the buying process – High relative value of information in the buying process*

A retailer with an offering characterized by relatively high complexity of a buying process and the relatively high value of information in the buying process uses the web mainly as an information platform. Due to the complexity of a buying process and the interactions needed in buying a product the preferred purchase channel is often a physical store. The channel integration aims to provide convenience, information and support for a customer during the buying process. That is, the customer can conveniently switch between channels and for example gather information, check for the availabilities, and compare products on the web channel and then visit the physical store for more information and see and test the product prior to purchase. The Internet channel can be designed to provide some aiding services to a customer but mainly works as an online catalogue as well. The role of an online channel is also to gather information regarding customer behavior and preferences. Therefore, certain web analytics tools and applications may provide useful information regarding the interests of consumers. In general, the role of web is seen as an information platform which provides complementing services for customer convenience, while the primary place for interactions is the physical setting.

Examples of firms in this quadrant of the matrix are such as department stores providing extensive and customized services such as tailor-made suits for various occasions. A buying process of a car can be considered including both elements high complexity and the high value of information and so these firms should apply an integration strategy that prefers offline transactions and complements it with extensive information and service online.

In Finland, the sale of strong alcoholic drinks and wines is government regulated and selling alcohol online is prohibited. An interesting example for channel integration in this

environment is Alko, a monopolistic Finnish alcohol retailer, has an online channel ([www.alko.fi](http://www.alko.fi)) where consumers can gather information on different wines and match them with different foods. All the sales are directed to the offline channel, the company's website shows availabilities, and some products can be ordered to physical stores where the actual transaction takes place. The website also provides extensive information about foods and drinks, and indicates if a certain offline store is specialized in certain type drinks.

In any of these strategies, the Internet offers a platform and an effective marketing tool for a variety of ways which firms should not overlook. For instance, the presence in Facebook or in other social media offers great chances for firms to enhance their visibility and marketing overall.

A firm's ability to execute and accomplish its generic strategy decisions in terms of service levels and service quality is tested primarily in face-to-face interactions on the offline channel. When the majority of transactions take place in a physical store, the provision or absence of service in the store is the most visible, and on the other hand most expected, in this setting. If a firm has chosen a strategy that aims to provide high quality service for its customers, it should use this same strategy in its other channels as well and strive also to use the available applications and resources to improve the service levels on the online channel. In a well-integrated multi-channel system, the consistency of the channels conveys a stronger message of the company's image to consumers thus strengthens the strategic position of a firm in consumers' minds.

### **3.2 Methodology of the study**

The fundamental aim of this thesis is to provide a qualitative study of the implications of a retail offering for the successful multi-channel strategy. Hence, the discussion in this thesis focuses on relevant theories in a multi-channel retail strategy and especially in the optimal integration of channels. The theories discussed in this thesis are followed by a comparative empirical study regarding alternative strategic directions for different situations deriving from different offerings. Hence, the idea of the empirical study is to describe central elements in

multi-channel strategy and illustrate some of the implications of these elements for a firm's multi-channel strategy on a general level.

The aim is to gather in-depth understanding about firms' strategic decision and reasons for those in multi-channel environment. Hence, the questions 'why' and 'how' are central in the study of firms' decision making. Three case studies are provided to illustrate the practical implications of the determinants of web integration presented in this study. As the questions 'how' and 'why' are more exploratory in their nature, a case study offers a proper way to answer these questions (Yin 2003).

The empirical part provides the illustrative examples of companies with different types of offering and compares how these offerings have impacted the use of multiple channels in their business. The empirical part looks also into the basic ideas in the business models of these firms as well as into the underlying generic strategies and how these elements are creating value for customers and contributing for a firm's success.

According to Yin (2003) case studies as research methods arise from the desire to understand complex social phenomena. Using a case study method for the empirical part of this thesis, can therefore be reasoned with the complexity of the concepts and aspects at hand. That is, the study of case companies seeks to provide understanding about an extensive and complex phenomenon. Therefore, due to the complexity and diversity of variables affecting a firm's strategy and business model, the use of case studies can be as the best way to provide understanding and to describe the practical implications of the theories discussed in this thesis.

The case companies were chosen based on their offerings, but also based on the role of their online channels. That is, two of the case companies are operating an online store capable of completing transactions. The industries the companies represent were chosen based on the examples given in the academic research (e.g. Grewal et al. 2004; Griffiths & Howard 2009; Rajamma et al. 2007) regarding the complexity of a buying process and the relative value of information in a buying process, i.e. certain industries have succeeded better in the online environment while others have encountered certain difficulties in the adoption of the Internet. This provides an interesting basis to explore the decisions and determinants behind the current situation.

The data collected for the empirical analysis is based on semi-structured interviews with the case company representatives and analysis of the firms' web sites. The interviews have been conducted through telephone conversations as well as face-to-face meetings with companies' representatives. The interviewees received a list of topics prior to the interviews. The topics included in the discussions concerned the business models and generic strategies of the firms, their use of multiple channels and the Internet in their operations, their offering characteristics and implications of it, and the impacts of multi-channel integration on their business and success of it. Hence, the core of the interviews was at the elements of the framework in Figure 3.2 and their manifestation in practice. In addition to interviews, the information provided on the case companies' websites was used in the analysis of their multi-channel strategy. The research of three case companies were deemed sufficient to illustrate the determinants of multi-channel strategy considering the scope and context of this study and the semi-structured interviews provided a way to look at these elements in practice as well as to obtain the perceptions of the company representatives.

## **4 EMPIRICAL STUDY**

This chapter introduces three case companies representing different offerings and industries. The discussion in this chapter is divided into three parts each discussing one of the case companies. Within these chapters, the discussion focuses on exploring the firms' business models and generic strategies, their offerings, multi-channel strategies and ultimately how these elements are seen contributing to the success of their business.

### **4.1 Case company 1 – Suomalainen Kirjakauppa**

Suomalainen Kirjakauppa is a Finnish bookstore established in 1912. It consists of 59 stores across the country. In addition to these Suomalainen Kirjakauppa has few smaller scale specialty bookstores such as Lukiolaisten Kirjakauppa for high school students. During the 1990s Suomalainen Kirjakauppa grew to be the biggest bookstore chain in Finland, and in 1999 an online store ([www.suomalainen.com](http://www.suomalainen.com)) was opened to complement the retail stores. Suomalainen Kirjakauppa is a part of Otava corporation. The consolidated turnover of Suomalainen Kirjakauppa in 2010 was approximately 109 million euro and the firm currently employs about 800 people.

#### **4.1.1 Business model and strategy**

In addition to selling books and providing expert advice on those, Suomalainen Kirjakauppa strives to do it conveniently. Competition consists of domestic and foreign rivals that offer their products through a variety of different formats and channels. That is, the competition Suomalainen Kirjakauppa is against comes from many different directions. Books are sold in department stores and at supermarkets while the Internet poses a threat of different type competition in form of electronic book retailers such as the Amazon. Furthermore, different formats such as e-books and audio books add another competitive aspect in the picture.

According to the Development Director of Suomalainen Kirjakauppa, Kalle Peltola, the company aims to provide easy and convenient access to its offering by giving a customer alternative channels and formats to choose from. The service component is seen as an important part of the company's strategy. However, the competitive ways are different in different channels and with different formats so the company must often be able to for example react swiftly to by different web pricing strategies. Since the competition is very different between channels and formats, the value creation process has a varying nature, yet the guiding principle in the firm's strategy and in the business model remains the same. That is, Suomalainen Kirjakauppa seeks ways to make shopping easy and convenient for its customers with the help good customer.

#### **4.1.2 The firm's retail offering**

The offering of Suomalainen Kirjakauppa consists primarily of books, but due to the recent trends and technological advancements role and amount of electronic books and audio books has increased in their offering. In any case, the offering can be primarily considered as products where the contents are the most important aspect. The online store operates 24 hours a day and there are more than 100 000 books in Finnish and Swedish and over three million books in English. In addition to books which constitute about 70 percent of the turnover, Suomalainen Kirjakauppa sells office equipment, calendars and various supplies for crafts and handiworks that form the remaining 30 percent of the turnover.

In total the offering of Suomalainen Kirjakauppa consists of more than seven million products. A single domestic or foreign book can be ordered in both channels online and offline. Having large amount of items in a retail store is limited by space and financial issues, but having these items available to order in both channels follows the company's strategy of availability and easiness in a buying process. However, as the development the multi-channel system is still in progress, the online store offering consists primarily of books, while some other product categories are yet to be placed on the online channel. Shopping in the online store is not limited by the same operating hours as in the offline stores as the web store operates day and night. While this provides convenience for average customers, a multi-channel system is necessary due to the increase in digital consumption. Different

wireless handheld devices provide a platform for e-books and there are huge amounts of devices capable of playing MP3-format audio books.

In general the average prices of the products are low. Hence, the buying process for books is not considered risky and complex in that sense due to the low cost merchandise. Consequently, in a case of a more expensive product the information regarding the contents of a product as well as expert and peer evaluations plays a more important role. A limiting element in the online business is profitability. According to Peltola, it is not economically viable to sell and ship one pencil through an online channel. Then again, the order quantities affect this element greatly.

### **4.1.3 Multi-channel strategy**

Suomalainen Kirjakauppa provides its products and services for its consumer and business clients in the Internet, so its customers may choose the most convenient way to shop for them. It is obvious that on the online channel the role and level of self-service technology is different than on the offline channel. In order to apply the same principles in the online environment as in the retail stores Suomalainen Kirjakauppa is constantly developing applications to help its customers to shop online. However, decisions regarding multi-channel strategy in the industry Suomalainen Kirjakauppa is operating in are greatly impacted by the diversity of competition between channels and formats. According to Kalle Peltola, the value chain and value creation process are different when customer needs are completely in digital format compared with providing contents in physical form. Furthermore, the devices designed to be used with digital e-books and audio books are often integrated into digital content providers.

Convenience for customers in the firm's multi-channel strategy can be seen also in the customization of the online store. Implementation of the new concept of convenience and service is still in progress but already there are stores where the multi-channel concept can be seen. The customization of the online channel in practice means that the theme and set up is different for those looking for books for kids and for those whose interest is in some other category.

Convenience and easiness can be seen increasingly in the offline environment as well. Suomalainen Kirjakauppa has recently opened a new type of concept store in Kamppi, Helsinki where the products are arranged even more clearly based on the use and contents while the shopping experience has been made more enjoyable and easy with an in-store café, express checkout systems and service points.

The orders can be placed through the Internet and in store, and the ordered package can be collected from the nearest store or it can be delivered directly to the customer. The core idea in the multi-channel strategy of Suomalainen Kirjakauppa is to have a broad system of touch points with a customer while providing the service and easiness and convenience on all its channels. The online channel has a hybrid role in helping customers to find out information, complete transactions, order books to be collected, and to provide a convenient mean to deliver digital content. Hence, the online channel in a way complements the offline channel while it extends some functions that are more convenient and economical to provide through the Internet.

#### **4.1.4 Operative and strategic fit and success**

The company considers it important to extend the service provided in the offline stores to its online store where applicable. That is, the Internet limits the interpersonal interaction that has an important role in the physical stores, but the online channel is designed to provide support and services to customers in its own way. Hence, the online channel is considered as a strategic complement that increases the convenience and availability for customers.

Due to the new integrated online store there is not much long term evidence of the success of it, but overall the firm sees its business model and the current way of using channels to be successful for now and in the future. The integration of channels is designed to provide more relevant information regarding customers and their shopping behavior and interests. This is seen essential in developing better customer understanding and consequently better targeting of marketing activities.

As said, the system is still very new and there are no concrete figures available of, the direct or indirect, identifiable effects of the multi-channel system. However, the general view

regarding the integration of channels is that it is necessary in both ways, due to the competitive pressure and due to its ability to provide certain efficiencies in customer service and target marketing, hence eventually leading to improved profitability and growth.

## **4.2 Case company 2 – Stadium**

Stadium is a Swedish sports accessory and apparel retailer operating in Sweden, Finland, and Denmark. The company headquarters and central warehouse is located in Norrköping, Sweden from where the products are distributed to the chain stores. The company is privately owned and the chain stores are operated by store managers. Stadium was established in 1974 and currently it operates more than hundred stores in total in three countries, Denmark, Finland, and Sweden and new stores are being opened constantly.

Inspiration for its current store image and the concept came from the Olympic Games in Los Angeles in 1984 where the Colosseum arena inspired the owners to apply track shapes to retail stores flooring to provide a true feeling of sportsmanship for the customers.

In 2001, the company expanded its business to Finland where it currently has 13 stores and two new stores that will be opened by the end of 2011. In 2007, Stadium opened an online store in Sweden followed by Finland and Denmark. The consolidated turnover increased 3.5 percent in 2010 while the turnover growth in Finland was 31 percent. The Internet sales which are not included in these figures grew 75 percent and 110 percent respectively. Thus, it seems to be that the concept Stadium has seems to be working well.

### **4.2.1 Business model and strategy**

Stadium wants to be an inspirer and improve the quality of its customers' lives by offering sports and sports fashion products with good function, design and quality in an affordable price. The value creation in Stadium lies on two fundamental aspects, namely a strong concept and image of the stores and effective logistics.

The company has been able to create a strong brand using the track shaped retail stores and so customers are widely familiar with “the track store”. The Stadium brand is build also on customer experience and service it aims to offer for its customers both in its retail stores and online. In the stores, Stadium aspires to have clarity in the exhibition of its products. The product categories enable it to offer something for different types of customer groups from basic needs to more advanced users. The price categories follow the same logic and there are cheaper products for basic level users and more expensive high quality items for users with high quality needs. Although Stadium strives to provide a high level of service for its customers it also strives to keep the prices affordable. In other words, the high level of service does not reflect in higher prices.

When it comes to the generic strategy decisions about Stadium’s business, the idea is to provide the availability of products and services with positive experiences for customers. According to the Country Manager of Stadium Finland, Jaakko Soini, pricing products higher than competitors in this industry drives customers away easily, which means that premium price strategy does not work very well in this industry. Furthermore, the sports accessory and apparel industry has certain iconic standard products that have relative fixed prices so coupling a premium price with good customer service is not accepted by consumers. On the contrary, effective logistics and strong relationships with suppliers allow the firm to have certain efficiencies in its supply chains which helps to maintain the affordable price levels.

The management at Stadium wants the firm’s strategy and its processes to convey to customers a message about the company as a convenient and affordable retailer which gives customers positive feelings every time they visit the store. Store personnel are constantly educated regarding the different products in the offering and how these should be used, in order to meet the specific needs different customers. The idea is to make customers feel important and welcome from the moment they enter the store and to give them a convenient access to the products and services. In practice, this means that service is an integral part of Stadium’s offering and that the positive customer value is not only based on the products and prices but also on the service they get.

#### **4.2.2 The firm's retail offering**

The offering consists of well-known brands such as Nike, Adidas, Puma, Reebok, Peak Performance, and Asics. In addition to these, the company has its own exclusive brands such as Everest, SOC, Marine Race, Warp and 4D. Shoes for running, football, and many other sports as well as for casual and street use form a great deal of the firm's offering. As in any sports store there are also gears for various sports such as ice hockey, but also for hiking and camping use. Clothing for different layers is also a part of Stadium's product range, as well as running and training clothes and street wear.

Most of the products in Stadium's offering are items that customers want to touch, see or test prior to purchase. Hence, the purchase process can be considered more complex in this context. According to Jaakko Soini, customers primarily want to buy in the offline channel due, but certain more familiar and well known products, which can be considered as re-buy products to some extent, sell well through the online channel as well. Often customers are not interested in hearing extensive information regarding the specifications of a product, but are more willing to hear about its suitability for their need and about the fit of the items for them. Hence, the extensive information and product information have an important role for some, but for most parts the weight in the buying process is in tangible confirmation of the fit.

Some of the products such as skies and snowboards require initial set up and the installment of things such as bindings that can be done only in store and so even though these products can be ordered online the actual purchase takes place in the retail store. Customer service plays an important role in finding the right product for the need, but sometimes customers already know what they want and so the expert advice is not necessarily needed in the process.

#### **4.2.3 Multi-channel strategy**

Stadium sells its products on offline and online channels. In 2007, it added a web store to support its sales in Sweden followed later by other countries. The idea of the online channel is to provide customers with an alternative sales channel thus improve the availability of

the products and services. The Internet is seen as a way to complement and support the primary channel where the sales mostly take place. As said by the Country Manager Soini, customers tend to want to purchase in store, and so many of the web orders are delivered to the nearest store which allows customers to confirm the availability of the desired product as well as obtain a final tangible confirmation prior to purchase.

This said it is obvious that Stadium provides its customers with alternative delivery modes for the web purchases. A customer can buy the products online and choose a preferred delivery mode. Delivery to a store is free of charge for a customer, but in the case of deliveries to the nearest Matkahuolto My Pack service point there is a delivery fee for orders less than 50 euro, and for home deliveries there are certain charges depending on the package.

Stadium aims to have seamless channel integration where both channels share the same principles. Due to the limited space in physical stores, Stadium's online channel only contains the full range of products and availabilities of each product in different offline stores can be checked from the online store. Hence, the web store serves customers in both, it allows them to check for availabilities as well as order the product from the same place. Furthermore, if a product is sold out from the inventory of an offline store sales personnel in the store may assist customers in ordering the product to the store from the Internet. This supports Stadium's approach on customer service in taking advantage of multiple channels and in providing convenience and availability.

Another aspect in multi-channel integration in Stadium is in customer information and how it is used in target marketing and in the development of better customer service. Due to the relative newness of its multi-channel systems, some developments are acknowledged but not yet implemented in practice. Hence, certain elements common in electronic retailing are in the process to be implemented somewhere in the near future.

In a buying process where more complex interactions are required sales personnel in an offline store assist customers with questions related to the use of a product, its characteristics and specifications, choosing the right size and how to take care of the product. In virtual environment Stadium aims to provide as much of these same services as possible in order to help its customers to choose the right products themselves and help them to even complete the transaction without tangible confirmation. For that, Stadium offers size guides, product

pictures and relevant information. Another aid for a customer currently employed only in the online channel in Sweden is the video support where a sales person gives the expert advice and product presentations of different products and hints about how to find the right product for different needs.

Stadium's view of multi-channel strategy is that the channels are seen as seamless complements although the primary place for purchases is still the offline channel. The firm's loyalty bonus system works for both channels and a customer collects points from purchases on both channels. As the multi-channel system is built on an effective and efficient logistics system the products bought on any channel can be returned or changed in any store. This also helps customers who have bought products online and have had those delivered directly and for some reason are not satisfied with them.

In terms of pricing both channels share mainly the same prices although there are occasionally offers valid only online. The replenishments of products to the stores as well as the web orders to customers all come from the same distribution center and the revenues fall under the same line, so from the corporate perspective it does not matter from where a customer buys in that sense. Hence, the organization structure and logistics system both support the integration of multiple channels.

The general view regarding the opportunities of the Internet in Stadium is that presence there is necessary in order to have a wider range of touch points with customers and to complement the offline channel. The development of various online applications and processes related to channel integration is still in process. Search engine optimization has been used to increase direct customers to both channels and make the purchase process easier.

By browsing through Stadium's website ([www.stadium.fi](http://www.stadium.fi)) it can be seen that the online channel works in various ways in providing information and support for customers. The site has certain catalogue characteristics and there is a store locator, the site has also certain service features in form of fitting guides and guides for choosing the right product, and ultimately, the site enables a customer to complete purchases as well.

#### **4.2.4 Operative and strategic fit and success**

As the growth figures mentioned earlier indicate, the business model and the concept seem to enjoy the acceptance of consumers. According to Soini, the company has a long term perspective on developing its multi-channel system and its way of doing things is characterized by patience and determination. Stadium strives to align its channel taking into consideration the channel attributes and has acknowledged the implications its offering poses on channel integration and sales in the virtual environment.

In the case of products with more complex buying process sales personnel and customer service in general has an important role. Stadium's strategy is to provide good service for its customers and give them positive experiences of their products and sports in general. According to Soini, multi-channel integration plays an important role in gathering customer information and using that to improve services and targeting customer groups better. This is seen to improve efficiency and help avoid extra costs and customer irritation due to irrelevant advertising. This hybrid role of the online channel is designed to provide fit to various customer needs but also to the generic strategy of the company.

Country Manager Soini sees multi-channel integration as a way to increase sales and growth as it supports the sales in retail stores and when integrated and managed properly allows customers to make purchases conveniently. The system also aims to improve efficiency by saving time from customers but also from the sales personnel. The customers can find relevant information online and use that to help in-store decision making.

Fundamental reasons for good fit between and the success of the integration so far, and enabling factor in general, Soini sees in the basis provided by the strong and effective logistics system. The sales on the online channel increase the inventory turnover in the central distribution center as the majority of the products in the central warehouse are to be distributed to the retail stores and so it is not necessarily a loss to the company in case the online channel does not sell certain products.

### **4.3 Case company 3 – Bayerncar**

In 2003, changes in car taxation changed the nature of second-hand car retailing in Finland. The change in taxation resulted in the establishment of new car import companies and adding more functions into many already existing companies' business. Bayerncar was established in Seinäjoki, Finland in 2003. The core idea was to take advantage of this taxation change and the existing contacts in German car business. Prior to the establishment in 2003, the company executives had been importing cars for their personal use and worked in car retailing in Germany. During the first six months, Bayerncar's turnover achieved 500,000 euro, and after the first full year, at the end of 2004 turnover was 1.6 million euro. At the end of the year 2005 the turnover had achieved 2.1 million euro and seems to be growing steadily. Currently, the turnover is approximately four million euro and delivering approximately 250 to 300 cars a year on the basis of customer orders and the company's own perceptions considering the general demand for cars.

The long history in car industry in Germany and vast population translates to a better supply of cars in better condition compared with the Finnish market of used cars. After the changes in taxation in 2003, many individual car buyers made trips to Germany to find a cheaper car with a better set of accessories for their personal use. Trust issues and lack of knowledge regarding the local market as well as the complex process has decreased consumers' eagerness to import cars for personal use by themselves. However, there are companies who are able to benefit this change and provide valuable service for consumers.

#### **4.3.1 Business model and strategy**

Bayerncar was established to serve its Finnish and foreign customers in buying different types of motor vehicles. Essential in Bayerncar's business is to make the process of buying a car as smooth, convenient, and safe as possible. Depending on a customer's need and preferences, the company can take the service to an extreme and find exactly the kind of a car the customer is looking for and take care of every little detail during the process.

Bayerncar's business idea and strategy can be summarized into a delivery of high quality cars cost-effectively with personal service. Additionally, good relationships with reliable suppliers and years of experience in car business in Germany give the company certain competitive advantages. Compared with many large car retailers in Finland Bayerncar's competitive strategy is more about targeting and personal service. The company aims to provide experiences for its customers and it strives to deliver more value than customers expect of the process.

The generic strategy Bayerncar pursues, despite the affordability of the service process, is not a cost leadership strategy. The firm's idea is through positive images and customer experiences, and through personal service to stand out of its rivals and attract customers. Quality and trustworthiness are central elements in the value creation as well as in the products and in the services the firm provides.

#### **4.3.2 The firm's retail offering**

Bayerncar's offering consists mainly of used cars and the company has specialized in imported cars, mainly from Germany and nearby areas. The cars in Bayerncar inventory vary from sports cars to vans, but it is not unusual to deliver a caravan to a customer. Bayerncar offers its customers also a service where the customer may take advantage of the firm's facilities in selling his or her car assisted by Bayerncar personnel. Typically the market value of a car the company sells is between 20,000 and 85,000 euro, but there are exceptions, and it is not uncommon that the company delivers luxury cars with a price tag of over 100,000 euro.

Competition in car retailing consists naturally of brand new cars as well as used ones. Generally, used cars imported from Germany contain a higher level of accessories and often the overall quality and condition of cars is better than in Finnish used cars that have been exposed to corroding chemicals used on the roads in winter time. Overall, the purchase process for used cars is often different and more complex than in the case of new cars due to the concerns related to the condition of a car. These are aspects that have partially made it possible for Bayerncar to target customers who seek quality and personal service when buying a car.

Customers often want to test drive a car and get to know the different accessories it has. They also want to know a little about the history of the car in order to reduce the risks related to the conditions of a car that are usually not visible outside. Hence, different kinds of information regarding the car are needed. Aspects such as appearance and paint of the car are usually important for customers to see in reality as well as testing whether the car is giving a drive feeling they like. This makes the buying process of a car relatively complex.

### **4.3.3 Multi-channel strategy**

Bayerncar sells its products only on the offline channels, but uses the online channel to support it by providing customers with detailed information and pictures of the products. There are various Internet pages that car retailers use to promote their products. In the Internet, the price competition converges and it is often difficult to stand up from competitors. However, according to Bayerncar chief executive officer, Joni Nelimarkka, it is important to extend the same business logic it has offline to an online channel as well. In practice this means that the company aims put more effort on information and image as well as quality aspects than competitors.

According to Nelimarkka, they have noted it at Bayerncar that consumers who look for and compare cars online tend to be drawn towards products that have extensive details and multiple high quality pictures of them, and be less price sensitive in their initial attention. This is one of the key aspects in Bayerncar's multi-channel strategy.

Overall, the channel functions are relatively distinct, as the online channel does not allow completing transactions. This is because customers' perceived risks in this industry regarding the products are generally quite high and they need tangible confirmation prior to the purchase. Furthermore, common for car retail is that the seller buys the buyer's old car which often reduces further the ability to complete transactions online. Hence, in this case the primary functions of the online channel are to provide customers with information they need and attract them to contact the retailer. In other words, the role of the online channel is to help a customer and consequently create a contact with the customer.

Bayerncar provides an order sheet for customers to point out the list of interests and to ask the retailer to be in contact regarding possible alternatives. Bayerncar's guiding principles on the online channel are the customer experience and convenience. The role of a website is mainly to be an online catalogue that can be used in a cross-channel buying process. Customers tend to compare more and more alternatives online and scouting on the offline channel has reduced. Customers choose some alternatives they like and they visit the car dealer to see and test the product. Later, the purchase decision can be made without seeing the product which is often the case when customer needs time to think about their financial issues and such.

Nelimarkka considers it possible to integrate an online store when the product is brand new, but the process with used cars is more complex and includes an uncertainty factor for which it is not seen as an economically viable alternative in Bayerncar's business. For the current way of doing things at Bayerncar, the Internet offers an efficient information channel and social media applications work well in directing consumers to the company website and ultimately to the offline channel. Provision of services through the online channel is limited, but there are ways in which the Internet can complement the offline service. As said, the generic strategy is to differentiate from competitors through personal service and quality while striving to exceed the customer expectations and provide positive experiences and even astonishment.

Web analytic applications allow the firm to see which items and what type pictures on the web site are receiving most interest this can be used in planning and understanding customers better, but due to high inventory costs with cars so currently this mainly translates to tacit knowledge.

#### **4.3.4 Operative and strategic fit and success**

Sales in the car retailing are affected by public discussion regarding the taxation and possible changes in that, but changes in general economic situation affect customer behavior and are reflected in car sales. Despite the difficulties in the industry and bankruptcy of some competitors, Bayerncar has been able to maintain and even increase its sales.

Visits to offline stores in general seem to have reduced and customers compare prices and gather information increasingly online. This has increased the importance of online presence. Bayerncar has strived to complement its services online and taken advantage of social media in directing consumers to the offline channel. The role of the Internet is central as it tends to balance the weights between small and big players on this industry.

The online activity on Bayerncar website is traceable but translating it to success figures is not currently possible. That is, it is a necessity to provide customers with the information on the website and strive to direct them to interact through an online channel but connecting success of it and the firm's business model is difficult. However, increased activity on the firm's online channel and reduced visits to the offline channel together with growth figures compared with competitors in the present economic situation indicate success in the team play of the online and offline channels.

## **5 COMPARATIVE ANALYSIS AND DISCUSSION**

This section provides a comparative analysis of the findings of the empirical study in the light of the theories discussed in the literature review and in the theoretical framework of this thesis. The following section looks into the results on a company level and in their relations with each other.

The latter part of the chapter includes discussion about the applicability of the theoretical framework and the reliability of the data gathered from the case companies. The underlying point of this part is the interpretation of the data provided by the case companies and comparison of it to the theories presented earlier. The analysis and interpretation are discussed with insights that have arisen during the different stages of the thesis process.

### **5.1 Review of the empirical study**

The organization of the subsequent text follows the structure of the theoretical framework used in this study. The first part addresses issues relating the firm's position on the offering matrix and its implications for the web integration strategy. The second part focuses on analysis of the firms' integration of online and offline channels while the third and the fourth chapters discuss the firms' generic strategies and multi-channel strategies and their reflections in the firm's business model and eventually in the firm's success.

#### **5.1.1 A retail offering and its implications for web integration**

Suomalainen Kirjakauppa sells products where the most essential element is its contents and what customers need for the purchase decision is mainly information regarding the contents. The requirement for details and the level of information may vary, but the relative value of information in this case is considered being on the high side of the continuum. The relative complexity in the buying process is low and there is very little or no need for

customers to have a tangible confirmation of the primary offering of the firm. Therefore, the position on the matrix is as shown in the following Figure 5.1.

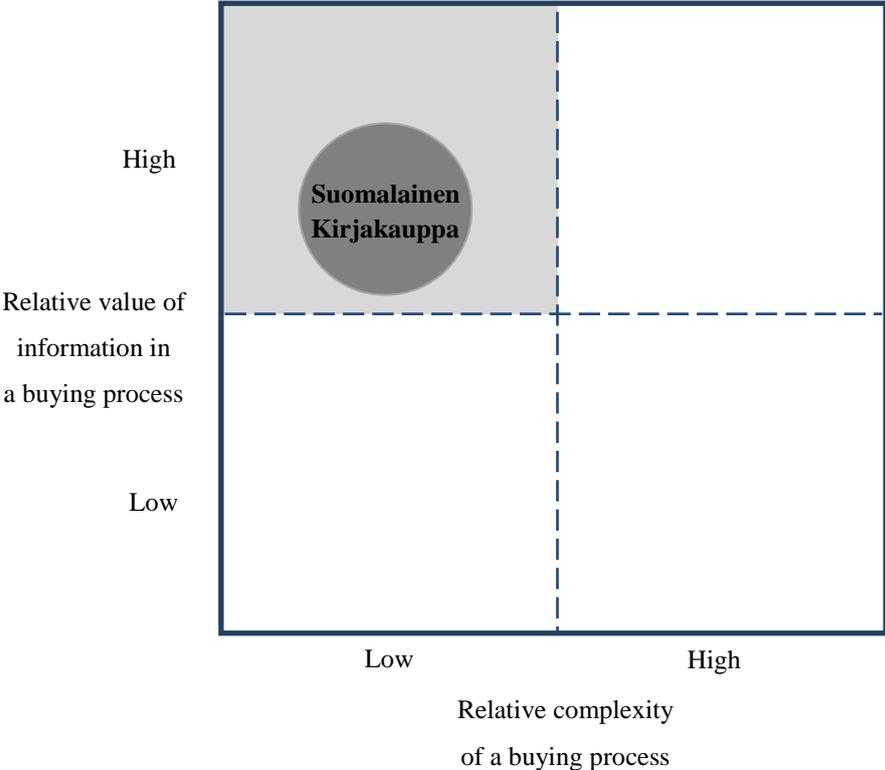


Figure 5.1: The position of Suomalainen Kirjakauppa in the offering space

The firm’s position within the quadrant is on the low complexity side since the offering is fairly standardized and information regarding the content is what determines mainly the suitability for ones need. However, the amount of information a customer needs is limited and presumably after a certain point the marginal utility of additional information is very low. Hence, it can be suggested that the position is closer to the mid section of the vertical axis. Price variations within the offering of Suomalainen Kirjakauppa are low and do not necessarily affect perceived financial risks and therefore are not seen as affecting the firm’s position.

Given that Stadium’s offering mainly consists of items that to some extent require testing and fitting, or require installments completed in store, and hence require tangible confirmation, the position on the offering matrix is in the quadrant where the relative complexity of a buying process is high. Relative value of information in the process is primarily low, but in

some cases information may add certain value and affect purchase decisions. Therefore Stadium’s offering regarding the information value may not be as definite as it is for some other products.

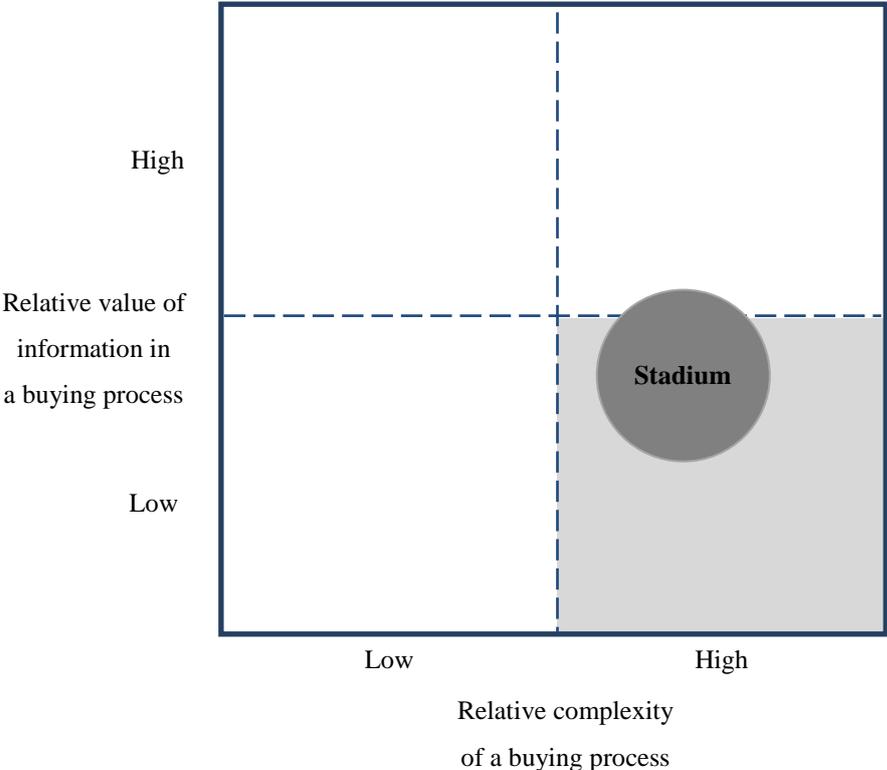


Figure 5.2: The position of Stadium in the offering space

In addition to testing a product, there are things that the customer sometimes wants to know about it, in other words customers want information regarding a product. In Stadium’s case, this information can be for instance the specifications of a running shoe or the waterproof level of a hiking jacket. These aspects shift Stadium’s position closer to the mid section of the information value continuum and it may be even considered that the value of information in some cases is considered high. The value of information is higher also with more expensive products such as alpine ski sets where certain characteristics which cannot be tested in the store together affect the suitability of the product to a customer’s need. Thus, with certain products the value added by information is greater, and especially when financial risks are higher the position may be seen more in the high zone of the information value continuum as well.

A car buying usually involves a complex process that includes relatively high financial risks. Need for information and its value are high and customers often want to test drive a car for a variety of reasons prior to purchase. Furthermore, the requirement for personal interaction and customer service in the purchase process are high. Hence, Bayerncar’s offering posits the firm to the upper right corner of the matrix where both the complexity and the value of information in the process are high.

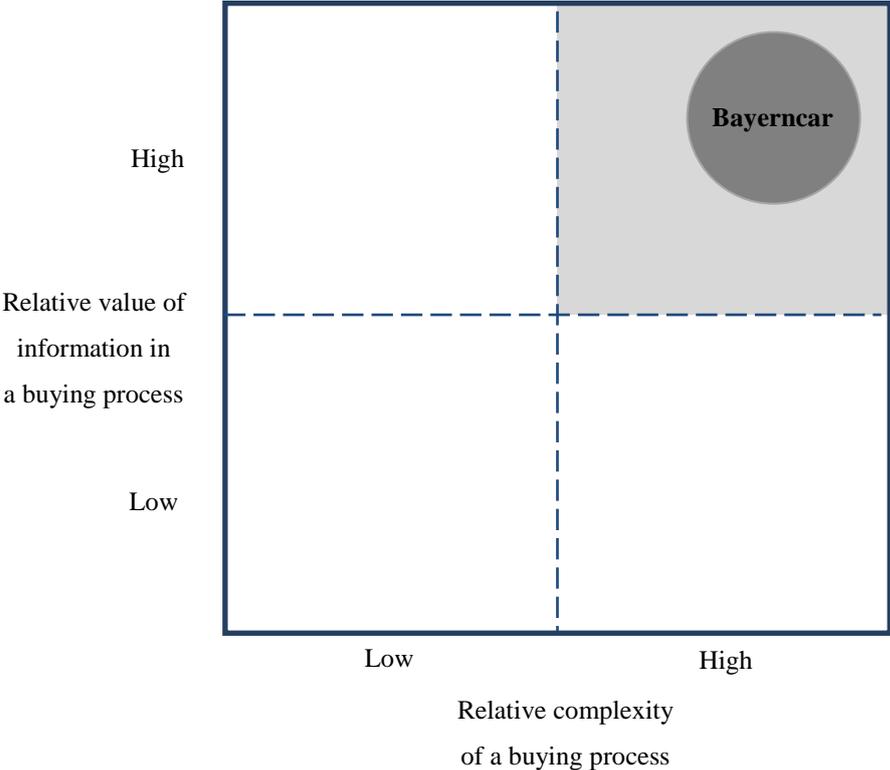


Figure 5.3: The position of Bayerncar in the offering space

Customers’ perceived risks involved in a buying process increase the complexity by adding more aspects that a customer needs to consider prior to making the final decisions. Financial risks involved in car purchases are naturally higher than in cases of cheaper commodities. In retail context, a used car purchasing is probably one the most complex purchase processes and involves relatively high financial risks. The process involves multiple aspects that require a great deal of information and interactions between a buyer and a seller. Therefore, the relative position within the quadrant is further on the high sides of the continuums.

### 5.1.2 Web integration strategies

The three companies used as examples in the study represent very different type of offerings, yet their view regarding the importance of customer service is very similar. Although the companies use of the Internet differs the way the companies see it as a complement or as an extension to their business is more or less the same.

All three firms are aware of the limitations and possibilities the channel characteristics and offering attributes create to the integration and have taken this into consideration in their business model. In other words, Suomalainen Kirjakauppa has recognized its ability and on the other hand the importance to sell and market its products on both channels, online and offline, and the company is managing and developing this multi-channel system to allow customers to complete transactions and place order in a way they prefer. Stadium, in turn, has acknowledged the complexities in the buying process of its products and is executing an integration strategy that is offline driven but receives extensive support from the online channel in various ways. In Stadium's case, the online channel provides convenience for customers by allowing them to gather quickly and easily information, by ensuring the availability of a product and ordering it to the nearest store and make the final decision in the store possibly together with the support of sales personnel, and by allowing a customer also a possibility to buy products online and have them delivered directly to the customer.

Bayerncar's integration strategy differs from the other two case companies by not allowing any web transactions. This is due to the complex and high risk process where customers are uncomfortable with completing transactions online and require tangible confirmation prior to purchasing. However, an interesting point about the online retailing of cars was made by Bayerncar's CEO Joni Nelimarkka: "When ordering a brand new car from a manufacturer, a customer always has to wait relatively long time to get the product with all the desired specifications and accessories. The customer cannot get a tangible confirmation of this exact product, but must rely on the tangible confirmation of similar product." Hence, the limiting factor in the offering is not necessarily the product but the fact that it has been used and therefore the uncertainty and risks involved in buying are higher. Furthermore, Nelimarkka

considers it possible to complete car purchases online in the case of new cars although the process requires some level of tangible confirmation.

Overall, Bayerncar's integration strategy follows similar logic as other case companies' and sees the Internet as a tool for providing convenience for customers by allowing them to compare products online and gather relevant information thus saving time and effort prior to visiting the offline channel. Saved time and effort were common goals of the channel integration for all case companies.

Common for all three case companies was also their views regarding the convenience increased by the use of multiple channels. The companies all referred to easiness especially in terms of information availability. The firms saw multi-channel integration enabling the better use of information and in both ways, gathering information about customers and providing information for them.

Integration of multiple channels and taking advantage of multi-channel systems is still in development in all companies and all three firms recognize the deficiencies in their systems. Interestingly, common for all firms was their minimal use of two-way information and using that from online to offline. That is, all companies understand the importance of providing information about the offline offering on the online channel, but they all seem to omit certain elements of information of customers. In practice, the firms may be tracking customer behavior and interest in the online channel, but do not take that information in to use on the offline channel. Hence, valuable information regarding the use of physical space in a retail store is omitted when customer interests in the online environment are not taken into consideration in the offline environment and firms use their offline store floor space in a way they see the most useful based on many other factors but not based on the information the online channel can provide about the customer interests.

### **5.1.3 Strategic and operative fit of a firm's web integration**

In order to stand out of competitors and create more value for customers these firms' product offerings are accompanied by services, but the ways the service components can be applied to the online channel are limited. Hence, exactly the same service principles cannot be used in

the virtual environment to the same extent as on offline channels. However, all three companies seem to share the view of complementing services on online and using the virtual channel as a service extension that does not try to work separately from the offline channel but as an integrated complement. In other words, the service is seen more as a result of all firm's channels rather and the increased value comes from the synergy of multiple channels and their complementing functions in a buying process.

Suomalainen Kirjakauppa wants to provide availability and easiness, and has built its multi-channel system according to that logic. The online channel is another way for consumers to buy the firm's products. The expert advice and the instant gratification are the strengths of the offline channel, but Suomalainen Kirjakauppa uses expert and peer evaluations and advice also on its online channel in order to bring the services provided on both channels closer to each other. The firm has acknowledged that with self-service technologies the importance of accurate and relevant information is increased, and it has taken this into consideration in its multi-channel strategy.

Suomalainen Kirjakauppa has started to open new type of offline stores where easiness is increased and customers may choose to use an express checkout system or a service point where everything from ordering to gift wrapping takes place. In addition, within the store there is a café to increase the enjoyment in shopping. This clearly indicates that the firm seeks certain synergies that increase customer value and that improve loyalty through enjoyable and convenient shopping in multi-channel environment. This seems to fit the firm's generic strategy of providing high quality customer service and availability for its customers. Both of its channels, online and offline have their own characteristics, yet both are able to sell products, provide information and service for customers, and ultimately they are both following the same generic principles.

Stadium aspires to provide its customers with positive experiences of sports and active life. It has created a strong brand that consumers recognize widely. The image of the company is partly created by the sports arena feeling and inspirational music in the firm's offline stores, but also through customer service and expertise. In addition, the product categories are aimed to serve a variety of user types in an affordable price. Affordability has its roots in strong and effective logistics system but also in the nature of the industry. This logistics system has enabled Stadium to develop and build a multi-channel system that integrates the online store

into the company's offline stores. Furthermore, due to the organizational structure and integrated logistics, customers can change or return products bought online or offline to any offline store they prefer. This system not only improves convenience perceived by customers but also serves as an opportunity for customer service and cross-selling.

Stadium has understood the complexities involved in the buying processes of its products. Buying shoes, clothes, and certain accessories require certain amount of testing and tangible confirmation, or the process is more complex in some other way limiting customers' preferences to use the online channel in buying these products. Then again, some of its products can be bought online, especially relatively standard items and straight re-buys, and so Stadium has created a web shop for its products. Furthermore, the customer service in the physical setting extends to the assistance in the use of the web channel in ordering a sold-out item for the customer after testing a comparable item in the store. This said it seems to be that Stadium has found a way to integrate its online and offline channel that takes into consideration the generic principles of the firm's business. In other words, the online shop helps customers by providing information, increasing availability, and increases convenience. The online channel supports offline business and complements the offline stores where applicable. The online store does not follow its own strategy but aims to provide its strengths to support offline channels. Furthermore, sales incurred in any channel or store fall ultimately under the same line so from corporate perspective this system increases the amount of touch points to customers and allows the firm to generate better results overall.

Bayerncar sells products that include relatively high financial risks and the personal tastes and preferences regarding many of the product attributes make the buying process relatively complex. In addition, the information about the product, its history, the specifications and accessories is valuable to customers. These aspects have certain implications for the channel roles in the multi-channel integration strategy. The primary and preferable channel for completing transactions is the offline channel and the online channel serves as an information platform for cross-channel shoppers. Customers want to save time and effort and they compare products online carefully during the buying process. The role of the online channel is to provide as extensive information for customers as possible. It is also designed to attract customers to the offline channel or to contact the firm through email or telephone.

In Bayerncar's case it is important to be able to convey certain messages of the generic principles of the company's business to website visitors in order to stand out of competitors. For Bayerncar, it means easiness and convenience, quality and trust, and personal service as well as customer experience. It is difficult to provide many of these aspects online, but things such as convenience can be improved in general through the proper use of the online channel. The other aspects must be built into the design and outlook of the channel, but convenience comes from customers' ability use the online channel to gather information quickly and easily during the purchase process. Currently, Bayerncar uses high quality pictures and extensive information to help its customers in the process.

The complexity of the buying process and inability to sell the merchandise on all channels limits the ways the online channel can be used to support the buying process. In terms of fit, the way in which the online channel is used is appropriate. It would incur extra costs if an online store was set up when the use of it is highly unlikely. In this sense, the integration of the channels can be seen fitting. When it comes to the generic strategy principles, which in Bayerncar's business means differentiation to provide highly personal service, quality and customization, it is difficult to attain these from a virtual channel. Therefore, the role of the channel is to complement the offline channel. As said, customers use the online channel to gather information and compare products. In this sense, it is relatively easy to see the fit between the channels as they together form a customer service system where customers can switch between channels during the buying process.

#### **5.1.4 Channel integration and success**

Common for all firms is relatively good performance in their industries. Especially Stadium has shown impressive growth figures in Finland. Another aspect common for the case companies in this study is their view of customer service and importance of customer understanding. The firms see customer information relevant and important yet there are certain differences among the firms regarding the ways customer information is gathered and use for to improve business.

Suomalainen Kirjakauppa and Stadium view channel integration more as a tool for improving the availability of their offering as well as a way to improve sales in both channels, whereas Bayerncar views channels as having more distinct and complementing roles rather than equal sales channel alternatives. Hence, the ways in which multi-channel integration can be seen affecting these firms' performances and success is slightly different. For Suomalainen Kirjakauppa and Stadium the online channel is directly impacting the sales figures, creating cross-selling opportunities and allowing targeted marketing activities. In Suomalainen Kirjakauppa, customers may prefer to use which ever channel fits best for their situation, while with Stadium's offering the online channel's use for transactions and deliveries is somewhat limited.

More specifically, for Suomalainen Kirjakauppa multi-channel integration seems to be rather a fundamental tool in the contemporary competition. The Internet is naturally a central marketplace for digital goods so for the competition in that area of products and services multi-channel strategy is a necessary way to provide availability and alternatives for consumers. Buying and selling Suomalainen Kirjakauppa's offering on an online channel as well as on an offline channel is possible, and it is important to provide this possibility for the customers and improve the availability but also to improve convenience. Although a customer may prefer an online channel for convenience reasons, the use of an offline channel may be helpful to get expert advice and personal service. This view is noted in Suomalainen Kirjakauppa and the firm considers it important to have complementing and alternative channels to maximize customer satisfaction.

The use of a sophisticated online channel also provides information about customers and their behavior and allows Suomalainen Kirjakauppa to develop its marketing activities to be better in meeting customer needs and expectations and avoid useless and not relevant marketing. As the multi-channel system Suomalainen Kirjakauppa has recently established is very new they do not have any concrete figures of its effects on their overall performance. However, using this system is seen to improve elements central and critical in competition and for long term success by providing customers with products and services more efficiently in a way that is valued by them thus ultimately improving customer satisfaction.

Stadium's view of multi-channel strategy and its role on success are similar to that of Suomalainen Kirjakauppa, yet there are certain distinctions. The views are similar in that both

companies seek to improve availability for consumers. However, Stadium approaches multi-channel strategy more from efficiency and sales increase perspectives while Suomalainen Kirjakauppa sees it more as an important competitive aspect. Obviously, both companies see multi-channel strategy including competitive aspects, but due to the nature of Stadium's offering, the online channel is seen to have more as a supporting role than in case of Suomalainen Kirjakauppa's offering. That is, the primary sales channel for Stadium is the offline channel and the online channel is designed to support and enhance the overall sales efficiency. Currently the information flows mainly towards customers and the existing technology is not used to the extent it could and should be used in order to have better customer understanding and an efficient multi-channel system.

As it is with Suomalainen Kirjakauppa, Stadium's multi-channel system and the integration process are still very new and the firm is determined to continue the development of the system. Stadium has a long-term perspective on multi-channel strategy and it has understood the importance and relevance of many aspects of multi-channel integration that are not yet deployed. However, the general view of multi-channel integration as a way to improve customer service, convenience and efficiency, and the alignment of channels to obtain these are in place. Overall, by looking at the growth figures of Stadium, especially in Finland, the business model seems to be working and customers are valuing the system. Stadium's success is partly based on the effective logistics system that together with the organizational structure enable the horizontal integration of retail stores and also the support it receives from the online channel. When the online channel is integrated as a support and complement to a working business model using the same principles, according to the theories discussed in this thesis the system should be viable. However, there are still many aspects in channel integration, enhancing convenience and efficiency, which Stadium can and will take advantage of in the future.

Bayerncar operates with merchandise that requires a great deal of information and complex interactions in a buying process. This has certain implications for the use of different channels in the process. The online channel is seen purely as an information platform that drives customers to the offline channel. The integration in this sense is successful and having a different role for the channels seems irrelevant. Then again, the use of the channel as a complementing information platform can be taken even further. Furthermore, there are ways

in which the channel may be used to increase customer understanding, yet these systems has not been deployed so far. This is acknowledged by the company and the process of integration is still in progress.

Provision of information to consumers is seen very important in Bayerncar, but the two-way role is somewhat omitted. However, while the consumer behavior has been shifting more and more towards pre-shopping and comparison in an online environment, Bayerncar has been able to provide this ability to its customers and compared with many competitors the firm has been able to maintain its growth rates and sales volumes. This is not the case in many other companies in the industry and many companies have suffered decreases in their performance and even bankruptcy. Although the integration of an online channel seems to be limited to a complementing information platform, the significance of the channel should not be omitted. The role of the online channel is again to provide certain efficiencies and convenience for a buying process. Bayerncar's case illustrates one example where the use of the online channel is very limited yet important. The ways in which the online channel contributes to a firm's success in this case are rather indirect as the convenience perceived by customers is difficult to measure in terms of efficiency, profitability or growth. However, at least to some extent, the current performance of Bayerncar in a difficult environment together with the website traffic figures convey a message of success in providing convenience for customers.

### **5.1.5 Key findings and discussion of the results**

As said, these companies seem to have shared views regarding some aspects of the integration of online and offline channels while some aspects are fundamentally different. The channel roles tend change more with the relative complexity of a buying process, whereas the value of information may vary but it does not necessarily affect the channel role as much as the relative complexity in the process. It seems to be that the more complex a buying process is the less the channel roles overlap, and vice versa. That is, when a buying process or the product does not include complex interactions with a seller the channel roles may overlap more.

Buying products on the online channel may often involve certain barriers to initial purchase but the degree of this barrier differs based on for example financial risks involved. It seems reasonable to assume that more expensive products of which a consumer has very little prior experience or information share a greater barrier to purchasing compared with products the customer is more familiar with. However, especially in a case of a re-buy where a customer for example buys another pair of shoes similar to which he or she has had before, the barrier and the need for sensory evaluation are different. An example of this is Stadium's online store where known products and re-buys tend to have greater sales volumes than more unique items.

Although these barriers created by offering characteristics and the need for example for tangible confirmation has limiting effects on the channel functions the firms have found ways to decrease the gaps in the channel roles. Stadium, for instance, has started to provide videos on its online channel that contain expert advice and specific information on a product-by-product basis. This system answers frequently asked questions and provides relevant information in a video format that is to some extent comparable to the personal customer service in a physical setting. Suomalainen Kirjakauppa follows similar logic and provides the expert and peer reviews of the books it sells online. Hence, it seems to be that these firms understand the importance of a consistent image from the consumer perspective. The consistency includes that retailers seek to provide similar value in each channel. Naturally this is not possible to execute in a full extent as the channel attributes differ and limit these possibilities.

The retail offering of Bayerncar makes it more difficult to create overlapping channel roles. An online store for used cars poses inherent risks that are very difficult to overcome. Hence, it is more important to provide customers with other kind of convenience. The convenience in this case comes from the channel's role as a complement that takes part in a buying process and makes it easier for a customer. In practice this relates to the information, customers search regarding specifications and availabilities, being easier and more convenient to find.

As discussed in the literature review, conveying an upscale image is limited but also easily imitated by rivals in online environment. Hence, in Bayerncar's case it is challenging to use the online channel to strengthen the firm's image as a trustful high quality service provider for used cars. However, by improving the content and quality of the information and stressing

the importance of convenience on the online channel it is possible to at least partially bring these aspects to customers' attention.

Figure 5.4 illustrates the relative positions of the case companies together. As mentioned earlier in this text the positions within a quadrant vary and the overall position on the matrix is subjective. Furthermore, the diversity within a firm's offering makes it more difficult to place a firm on a definite position on the matrix.

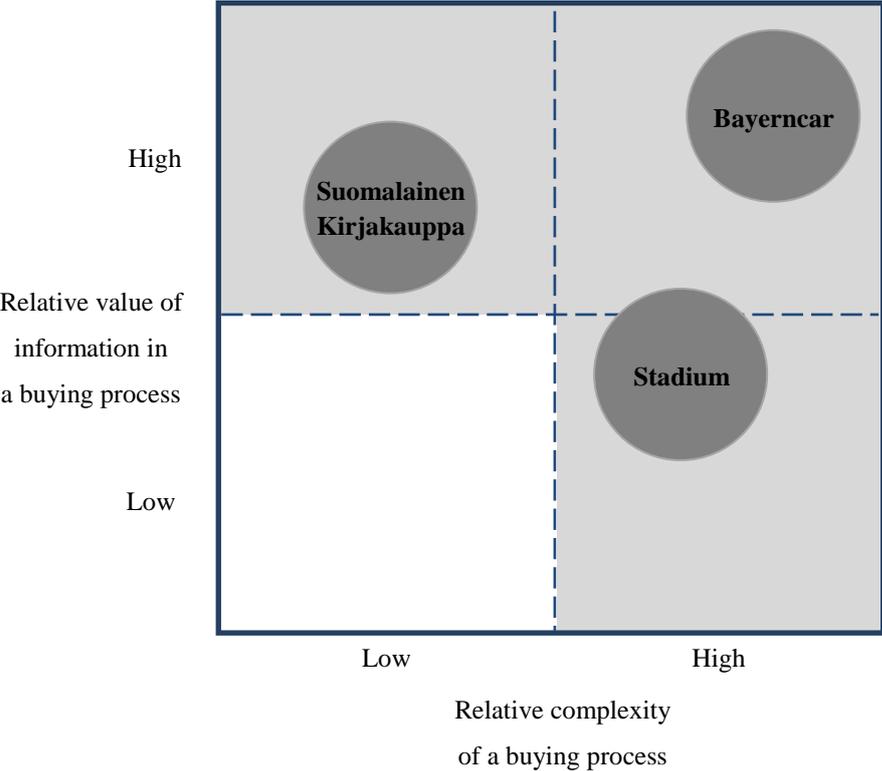


Figure 5.4: The relative positions of the case companies in the offering space

The positions of Suomalainen Kirjakauppa and Stadium can be seen to differ more in terms of the complexity in a buying process while the difference in the information value is relatively low between the firms. Bayerncar is positioned far on the upper right corner of the matrix due to the high complexity and the value of information in the process which can be seen distinct from the other two case companies. Although the tangible confirmation in the process may not differ that much between Stadium and Bayerncar financial risks are greater in Bayerncar's offering which increases the overall complexity of the buying process. Financial risks can be assumed to affect the value of information in the process as well.

The nature of the buying process of Bayerncar's offering is very different to the other two companies due to the frequency of buying and the financial risks involved. A customer may buy more than one or two books or a pair of shoes in relatively short time compared with buying a car where the purchase frequency is not as high. This has certain implications for customer loyalty and for the management of a customer relationship, and during the time between car purchases the customer's preferences may change which makes customer profiling slightly more complex.

Customer retention and loyalty are important elements in a firm's profitability. However, in the interviews for the empirical study, loyalty did not come up in any parts of the discussions. However, Suomalainen Kirjakauppa and Stadium have member cards aimed at increasing loyalty as well as for gathering customer behavior. Yet, loyalty did not come up in the interviews as a consequence of consistent and well-integrated multi-channel system. Member cards that offer customers certain benefits and provide information regarding purchase history seem to be important for loyalty and for data collection, however, the multi-channel system enables firms use many other methods for both of these functions such as web analytics data that can be applied in the offline channel resource allocation and distribution of store floor space for different products. Hence, an important finding regarding the channel integration relates to the fact that these companies seem to use this valuable customer information in a rather one-sided way.

Regarding the offering characteristics matrix, these three companies represent three of the four quadrants in the matrix. The fourth quadrant represents retail offerings with a low value of information and a relatively low complexity in a buying process. The integration of channels in this quadrant can be seen as having similar characteristics as the quadrant Suomalainen Kirjakauppa represents. Due to the relatively low complexity of a buying process the products can be sold online. However, the integration may not be as important as it is for companies in other quadrants and isolation strategy may be enough. Then again, firms in this quadrant can for example be electronic retailers without any physical channels. There may be certain benefits in the establishment and integration of a physical channel if it creates value for customers.

## **5.2 Applicability of the theoretical framework**

As mentioned, the offering characteristics matrix and the framework used in this study include elements that are rather subjective. This poses certain implications for the generalization of the results. The characteristics of a retail offering used in this study are measured subjectively and divided into a high-low scale, and further, this measure concerns the overall view of the offering consisting of a diversity of products that vary in their characteristics. Then again, the fundamental aim of this study was not to have quantitative measures of the components in the matrix and the framework but to have a descriptive and comparative analysis of strategic directions.

Despite the subjective nature of certain elements in the framework, the results that concern channel roles and characteristics of a retail offering can be seen reliable. That is although some consumers have different perceptions regarding risks involved in purchase processes it seems to be that for example the need for the tangible confirmation and sensory evaluation of a product remains a central aspect for the channel functions and thus the implications for an integration strategy do not depend on the classification of a product but on the relation between perceived the complexity of the process and the channel attributes. In other words, more relevant to the results are the relationships of the information value and the process complexity to the channel roles than perceptions of a product's absolute position on the matrix.

In general, the results provided by the empirical study seem to fit the theoretical assumptions well, and the firm's interviewed for the study provided expected results regarding the integration strategy approaches. These integration strategies presented are not exclusive and it may be that some retailers whose offering consists of a wider range of product types have combinations of overlapping strategies for different products.

## **6 CONCLUSION**

This part of the study concludes the discussion and sums up the results regarding the theory and practice. The first part will discuss the central elements and results of this study together with the research question. The second part discusses some practical and managerial implications that have arisen during the analysis of theory and empirical study in this thesis. The latter parts of this study go through briefly some of the limitations of this study and discuss some directions for future research on topics related to this study.

### **6.1 Review of the research question**

The underlying research question this thesis aimed to answer related to the implications of a retail offering for a firm's multi-channel integration and how this integration ultimately fits the firm's business model. The answer to this question can be divided into three parts, namely to the implications of a retail offering for channel roles and functions in a multi-channel integration strategy, to the importance of the alignment of a web integration strategy and a firm's business model, and to discussion of the importance of multi-channel integration on a general level.

The theories discussed in this thesis argue for the importance of convenience in consumers' multi-channel shopping. Consumers seek products and services that are valuable for them in one way or another, and their behavior motivated by their various needs. In this context, the need refers to a product that may be delivered with some degree of service attached to it. These products and services that compose a firm's retail offering satisfy different needs and the buying process varies depending on the product and the need in the question. With some products consumers need more information to make a purchase decision than with other products, whereas buying some product may not require information as much it requires complex interactions with the seller or with the product in order for the customer confirm the suitability for his or her need. These elements were called the offering characteristics in this thesis and these elements were central in the theoretical framework of this study.

### *Channel roles*

The answer to the research question, based on the analysis of the empirical data and the literature used for this study, is that a retailer's offering significantly affects channel roles and the channel functions in an integration strategy. That is, certain products can be sold through an offline channel much more efficiently than others, while with some products the channel attributes do not necessarily affect a customer's willingness or ability to purchase these goods.

In order to provide a convenient customer experience in a multi-channel system, the channel roles and what is expected of them has to be understood from a customer's perspective. Each channel has its strengths and weaknesses and the multi-channel system should be integrated so that the lack in one channel is complemented by the strengths of other channels. With some products the role of an online channel may be more as an information channel while for some products it may be the preferred channel for convenient purchasing.

The channel roles and functions are many. A channel can be an extension or a complement and it can be very similar or very different to the other channels. Basically a channel is a point of interaction with a customer, but the nature of this interaction varies significantly. The interaction between a buyer and a seller can be a completion of a transaction and the channel linking the parties can work as a sales channel or a delivery channel. On the other hand, a channel role may be purely informational without the ability to complete transactions or deliver products or services.

The interaction, communication and flow of information between a consumer and a retailer are often two-way. That is, information is provided for a customer while a customer shares certain information for a retailer. The nature of the information differs and it may be for instance product specifications, pre-sales or after sales support, marketing communication, purchase history data, or feedback. Sometimes the role of a channel is to be a marketing channel, a platform for one-way information that lists products as in a catalogue. However, when the information flows only in one direction the possible benefits of channel integration are not taken to their full potential. A channel role can be an extension, a complement, or a component of customer service while it contributes to a customer experience a firm is seeking to provide.

As said, the ability of a channel to play a certain role in a multi-channel system depends on the type of the products a retailer sells and on the channel attributes. Retailers must have certain operative fit between their offering and channel attributes so that they will avoid useless functions and extra costs. However, often the roles of channels overlap and firms may be pursuing a variety of things with their multi-channel strategy where channels perform many functions, not just one or two, but they construct an integrated system to provide convenience for consumers. This study aims to provide simplistic understanding about the central elements affecting multi-channel strategy, but the reality is often very complex and so overlapping channel roles and functions are necessary.

#### *Alignment of a firm's business model and multi-channel integration*

As it was discussed at the beginning of the literature review of this study, the Internet should be used as an extension to a firm's business model rather than managed separately and the same principles that provide success for a firm's business in physical setting should be applied online. This was the basis on which the study was built. The theoretical framework constructed for this study includes two types of fit elements in it, namely the operative fit and the strategic fit. These refer to the optimal alignment of channel roles with a firm's offering, and the alignment of channel integration strategy to a firm's business model in a way that they both follow the same principles.

The generic strategy a firm pursues defines how the company aims to create value for its customers and stand out from the competition. Firms may differentiate for example based on a service level or quality, or pursue a cost leadership strategy and strive to create value with lower prices. In multi-channel integration it is important to have consistency in the ways a firm creates value in its different channels. That is, from a customer's perspective the consistent channel system reduces confusion and gives the customer a single retail entity view of the company. Loyalty and customer retention are important issues and especially due to the low switching costs, retailers need improve the channel consistency to create positive multi-channel experience and to reduce cross-channel free riding where a customer may use a firm's channel during the buying process but eventually make the purchase on a competitor's channel. Therefore, strategic fit between a firm's web integration approach and its generic strategy is import for a consistent multi-channel system that is convenient for all stages of a buying process.

Another aspect central to the optimal alignment of channels and a firm's business model is the benefits it creates when the system fits together and follows the same logic. That is, a well-integrated multi-channel system allows a firm to increase its efficiency in asset use through information management, and to reduce costs through for example resource re-allocation. Furthermore, the increased customer satisfaction that results from increased convenience and from a consistent channel system helps firm to retain its current customers as well as attract new ones.

### *The importance of multi-channel integration*

As firms seek ways to develop their business, make it more efficient, more profitable and expand it overall, and it is important to understand multi-channel integration in a holistic way rather than just go for short term benefits and price competition in the Internet. By increasing the amount of channels used a firm can increase the amount of touch points with its customer that allows the firm to take advantage of a wide system that provides and gathers information for and about its customers. However, the firm must also be able to use this information to develop its customer service and allocate the firm's assets and resources in the most efficient and optimal way.

The empirical study conducted in this thesis indicates that firms are to some extent aware of the benefits a well-integrated multi-channel system is able to provide but there are still ways in which they can take it even further. For instance, the firms interviewed for this thesis seem to be tracking their customer behavior and applying this data to target their marketing activities more efficiently. However, the information about consumer behavior affects mainly the firm's marketing activities but not for example the exposure different products receive on each channel. The study of the case companies shows also that firms are taking into consideration the limitations of their channel functions with their offering in the channel roles, but they are also striving to overcome these limitations in the functions of different channels for example by using multimedia and different applications to provide similar service on the online channel as they provide in the offline store. Hence, it can be concluded that the implications a retail offering has for channel roles have been acknowledged and put to action in the case companies and for most parts their multi-channel integration strategies seem to fit both strategically and operatively the firms' business.

## **6.2 Managerial implications**

Based on the analysis of the empirical study and on the theories discussed in this thesis certain managerial implications can be drawn. The implications this study has for management of retail firms can be summarized into following three categories:

### **1) Multi-channel integration and its benefits for a firm**

An optimally integrated multi-channel system provides numerous benefits for a retailer and for its customers. Some of the benefits are more direct than others, and overall, the benefits form a complex and an intertwined causal network, where one benefit affects or allows another. That is, consistency reduces confusion and convenience increases customer satisfaction and both of these tend to positively affect customer retention and loyalty. Furthermore, increased convenience, satisfaction and loyalty should improve profitability through better customer retention. Integration enables a retailer to take advantage of shared assets and the synergy of channels provides efficiency for the retailer's operations and processes. Integrated channel use also creates cross-selling opportunities that tend to increase sales and growth, and through the use of multiple channels, both physical and virtual, retailers can access wider customer segments. Therefore, multi-channel integration and its many aspects should be carefully considered by a retailer as a way to increase the value it creates for its customers, and ultimately for its own benefit.

### **2) Understanding the uses of information**

Another important aspect in multi-channel integration for firms to understand holistically and in detail is the significance and the various uses of information. Naturally it is important to provide customers with various kinds of information to help them during a buying process on the online channel, but in terms of a convenient multi-channel system, it makes the purchase process and the use of a channel more convenient and attractive for a consumer as it takes away a need to visit the physical store to attain information regarding availabilities and specifications.

It is also important for a retailer to continuously look for new ways to use the information gathered about customer behavior, their online activity, their purchase history and other activity data such as images clicked the most, and apply this information, not only on the channel it is gathered from but where applicable on other channels too. With the case companies, the information and its uses were acknowledged and taken advantage to some extent, but there are still various ways in which firms can use information to build their multi-channel systems more efficient, effective and convenient.

### **3) Retail offering and the channel roles**

The third managerial implication from this study relates to the channel roles and their uses. On the most fundamental level firms should understand a channel's role either as a complement to other channels, or as an extension for example of service, or as an equal alternative for customers to interact with them. Depending on the channels used and type of offering a retailer has, the channel roles vary. The roles may be more or less distinct, or they may be overlapping, but the underlying logic should be the same. That is, the channels should form a consistent system where a customer is able to gather information and compare alternatives quickly and easily, then make the purchase and possibly change or return the product as easily. In other words, in-store pick-ups and ability to return web orders to a retail store are aspects that increase the convenience and reduce the perceived risks of the process.

Another aspect important for channel roles is that certain technologies and applications can narrow the gaps between channels and allow a retailer to provide similar service for example on the online channel as they have on their offline channel. For example, Stadium has started to use this by adding product presentation videos into its web store that allows consumers on the online channel attain very similar expertise as they can get from the offline stores. In general, firms should use creativity in their use of technology if they want to provide holistic positive shopping experiences for their customers conveniently in a multi-channel system.

### **6.3 Limitations of the study and suggestions for further research**

The underlying aim of this thesis was to conceptualize and illustrate the roles of different channels in a multi-channel strategy and how these roles are affected by a firm's offering. Central to strategy formulation in any case is the aspiration to generate value for customers and consequently money for the firm and its owners.

In assessing the applicability and fit of a certain multi-channel strategy for a firm's business it is relevant to measure its impacts on certain key performance indicators. The impacts in this thesis were assessed on a subjective level based on the case companies' views rather than on concrete figures and quantitative measures. Hence, the absolute effect of multi-channel integration in a firm's business was not measured. Measuring the direct benefits of the channel integration and its impacts are a very complex task and beyond the scope of this thesis. A quantitative measuring of multi-channel integration success is an interesting area of research beyond the scope of this thesis but it should be further studied. Also, the offering characteristics were looked at in a qualitative way and more quantitative and objective approach to these elements should be further studied.

Three case companies used in this thesis illustrate the channel roles and strategy alternatives on a general level but more specific and reliable observations can be obtained by studying more companies in more detail. Furthermore, as a firm's offering consists often of products and services, the service component that was limited in this thesis offers an interesting area to research further. That is, channel roles and functions in providing services as a part of multi-channel integration strategy for helping product sales using various advanced technological offer many alternatives for further studies.

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## APPENDICES

### Appendix 1: Discussion themes for the case companies

- 1) Business model and strategy
- 2) Multi-channel retail and the Internet
- 3) Characteristics of the offering: Relative complexity of a buying process and relative value of information in a buying process
- 4) Role of multi-channel integration in success

### Appendix 2: A list of questions used during the interviews (in Finnish)

#### LIIKETOIMINTAMALLIA JA STRATEGIAA KOSKEVAT KYSYMYKSET:

- Miten yritys pyrkii erottautumaan kilpailijoista?
- Millä tavoin yritys pyrkii luomaan asiakkailleen arvoa?
- Eroaako kilpailu suhteessa: a) kivijalkamyymälöihin, b) muihin nettikauppoihin, c) muihin mahdollisiin kilpailijoihin?
- Minkälainen hinnoittelustrategia yrityksellä on?

#### MONIKANAVAISUUTTA KOSKEVAT KYSYMYKSET:

- Mitä kanavia yritys käyttää ja miten?
- Miten yritys näkee Internetin mahdollisuudet? Miten yritys näkee Internetin käytön tällä hetkellä osana liiketoimintamallia ja arvon luomista asiakkaille?
- Onko yritys huomionnut sen liiketoimintamallin tai strategian sen verkkokaupassa/monikanavaisuudessa? Miten palvelun rooli näkyy verkkokaupassa?
- Hyödyntääkö yritys cross-selling mahdollisuuksia ostotapahtuman yhteydessä?

#### TARJOOMAA KOSKEVAT KYSYMYKSET:

- Millä tavoin tuotteiden myyntiä pyritään lisäämään myymälässä/Internetissä?
- Mikä on henkilökohtaisen vuorovaikutuksen rooli myynnissä ja miten tämä vaihtelee tuotteen mukaan?

- Mikä on tarkan ja kattavan tuoteinformaation merkitys (esim. tuotekuvat, koko, hinta, paino tms.) myynnin ja asiakastyytyvyyden kannalta?
- Onko tuotteiden toimitustavoissa eroa tuotteiden välillä? Onko yritys huomionoinut kanavien sisältämät mahdollisuudet tai rajoitukset tuotteiden myynnissä kunkin kanavan kohdalla?
- Mitkä tekijät rajoittavat monikanavaisuuden hyödyntämistä tuotteiden osalta?
- Onko tarjooman myynnissä/myyntiluvuissa huomattavia eroja kanavien välillä?

#### MONIKANAVAISUUDEN JA MONIKANAVAINTEGRAATION VAIKUTUKSET MENESTYMISEEN:

- Onko liiketoimintamalli nykyisellään tuottava?
- Mitkä tekijät vaikuttavat tuottavuuteen?
- Miten monikanavaisuuden vaikutukset näkyvät yrityksen menestymisessä?
- Onko monikanavaisuus lisännyt tehokkuutta? Onko monikanavaisuus lisännyt tuottavuutta? Onko monikanavaisuus lisännyt kasvua?
- Onko yrityksen monikanavamalli ja liiketoimintamalli yhtenevät?
- Toteuttavatko yrityksen kanavat samaa kilpailustrategiaa ja asiakaslupausa?

#### Appendix 3: A list of people interviewed

Company	Position	Name	Date/type of the interview
Suomalainen Kirjakauppa	Development Director	Kalle Peltola	24.10.2011/Telephone
Stadium	Country Manager Finland	Jaakko Soini	25.10.2011/Meeting
Bayerncar	CEO	Joni Nelimarkka	27.10.2011/Telephone