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Integration of sales channels in multichannel retail organizations - Controlling intra-organizational channel conflict

Logistics

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Abstract

Objectives of the study

The expectations of customers have evolved as they increasingly expect a seamless shopping experience while using multiple channels. The ability of retailers to respond to these expectations and remain competitive is perceived to largely depend on their ability to integrate their existing physical and online channels. The integration of the sales channels, however, poses significant challenges. Especially the arising channel conflict within an organization has been perceived to be one of the major barriers to successful integration. The aim of this study is to investigate the intra-organizational channel conflict phenomenon by evaluating which influential underlying factors can be identified to be triggering channel conflict within organizations, as well as by identifying strategies that managers can use to control channel conflict and promote cooperation.

Academic background and methodology

The research was conducted among managers of retailing companies and industry consultants with extensive experience in working with multichannel retail organizations. In order to capture in-depth understanding on the perceptions and mindsets of the experts, the research followed a qualitative approach. The data was collected using semi-structured interviews. The data was examined and interpreted using a research model that was built based on an extensive review on the findings of earlier research in the field.

Findings and conclusions

The study identified nine sources of intra-organizational channel conflict that are of certain importance when integrating the physical store and online channels, and it indicated that these sources of conflict are closely interconnected. The study also identified that the strength of the conflict experienced, is strongly connected to organizational characteristics and strategy, the business model as well as maturity stage of the integration. The results further indicated that there exists three fundamental management interventions that can be utilized to control the arising conflict, but channel conflict is bound to exist at some level or some form in all multichannel organizations.

Keywords Multichannel retail, integration, intra-organizational channel conflict, case study

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Tutkimuksen tavoitteet

Asiakkaiden ostokäyttäytyminen on muuttunut ja he odottavat kaupalta saumatonta ostokokemusta käyttäessään useita eri kanavia. Käyttötavarakaupan yritysten kyky vastata asiakkaiden muuttuneisiin vaatimuksiin nähdään suurelta osin riippuvan niiden kyvykkyydestä integroida olemassa olevan myymälä- ja verkkokanavan toiminnot. Integrointi asettaa kuitenkin merkittäviä haasteita kaupalle, ja etenkin yritysten sisäinen kanavakonflikti nähdään yhtenä suurimmista haasteista integroinnin onnistumiselle. Tämän tutkimuksen tavoitteena on selvittää kanavakonflikti-ilmiötä tutkimalla tekijöitä, joiden voidaan tunnistaa olevan merkittävässä roolissa kanavakonfliktin syntymisessä yritysten omien myyntikanavien välillä. Tutkimus pyrkii myös tunnistamaan toimintatapoja, joita yritysten johto voi käyttää myyntikanavien välillä esiintyvän kanavakonfliktin kontrollointiin.

Kirjallisuuskatsaus ja metodologia

Tutkimus perustuu laadulliseen tapaustutkimukseen, ja se toteutettiin haastattelemalla kaupan asiantuntijoita. Teemahaastatteluiden avulla kerätty empiirinen tutkimusaineisto analysoitiin käyttämällä apuna tutkimusmallia. Tutkimusmalli rakennettiin aihealueen aiemman tieteellisen tutkimuksen tulosten perusteella, ja se perustui laajan kirjallisuuskatsauksen avulla saavutettuun näkemykseen.

Tulokset ja päätelmät

Tutkimuksessa havaittiin yhdeksän vaikuttavaa tekijää yritysten omien myyntikanavien väliselle kanavakonfliktille. Näillä tekijöillä voidaan havaita olevan merkitystä, kun yritys integroi fyysistä myymälä- ja verkkokanavaa. Tutkimus osoitti myös, että kanavakonfliktin lähteet ovat tiiviisti sidoksissa toisiinsa ja sen vaikutuksen voimakkuuden voidaan todeta liittyvän vahvasti yrityksien strategisiin ominaispiirteisiin, liiketoimintamalleihin sekä integraation eri kehitysvaiheisiin. Lisäksi tutkimuksen avulla havaittiin kolme keskeistä toimenpidettä, joita yritysten johto voi hyödyntää lieventääkseen kanavakonfliktin vaikutusta. Toimenpiteistä huolimatta kanavakonfliktia esiintyy jollain tasolla tai jossain muodossa kaikissa monikanavaisissa yrityksissä.

Avainsanat Monikanavaisuus, käyttötavarakauppa, integraatio, kanavakonflikti, laadullinen tutkimus

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1. INTRODUCTION

The market environment for retailers has experienced a massive transformation in the past two decades and it continues to evolve rapidly. The most fundamental change is that today customers search for and purchase goods using multiple marketing channels. A multiple channel structure is not a new concept in retail, as catalogs, call centers, physical and web stores have co-existed. However, customer expectations have radically transformed in the internet age. Customers today expect a seamless shopping experience using a variety of channels and switching between multiple channels during the process of searching for real-time information, making the purchase and taking care of post-purchase issues. Due to this shift in customer expectations, it has become almost impossible for retailers to satisfy the needs of customers by using a single-channel structure and therefore the implementation of multiple channels has become imperative to most.

Simply implementing a new channel does not however suffice the needs of customers. In order for companies to become customer focused there has been a clear need to move from having multiple channels to multichannel retailing with evermore-integrated channels. Scientific literature supports the envisioned benefits of multiple channels. Neslin and Shankar (2009) state that "empirical evidence that the average multichannel customer buys more and is more valuable than the single-channel customer is reaching the point of empirical generalization" and a variety of studies suggest that offering customers a seamless shopping experience through multiple channels is imperative for retailers to stay competitive (Zhang et al. 2010; Gulati & Garino 2000).

Practitioners and academics in the 1990s and beginning of the 21st century envisioned that pure e-commerce players would in the long-run make traditional retailers redundant due to their advantages in low prices and wide assortment (Zhang et al. 2010). However, the traditional retailers still hold a strong foothold, but they have had to implement their own e-commerce channels to support the physical stores to keep up with the pure-click competitors. Low prices and wide assortment have been seen as the major advantages of pure click players, but lowest prices offered by pure-click retailers do not alone offer sustainable competitive advantage (Rosenbloom

2007). A study conducted by McKinsey & Company (2011) highlights that in addition to pricing and assortment, purchasing decisions are affected by a range of factors, most importantly the degree of trust a customer has in a retailer and the customer's previous buying experiences.

In order for traditional retailers to take advantage of their combination of local presence, trusted brand and e-commerce channel, there seems to be an almost universal acceptance among industry experts as well as among scientific researchers that a truly integrated multichannel retail approach is the ideal (Neslin & Shankar 2009). However, despite the hard efforts of many retailers around the globe, very few retailers have been able to get anywhere close to it (National Retail Federation & Shop.org 2013). The topicality of the issue and the struggle that many retailers are facing makes multichannel retailing a very interesting research topic.

1.1. Research gap

Academics agree that a significant if not the most significant barrier in formulating and implementing a successful multichannel strategy is the emergence of conflict between different sales channels (Moriarty & Moran 1990, Rosenbloom 2013, Chatterjee 2010) and surveys have indicated that channel conflict is one of the most important issues when companies evaluate their online strategies (Webb 2002). However, despite the amount of attention the new multichannel strategy and the integration have gotten, there has been little empirical studies done to outline what factors have the most effect on the successful implementation of multichannel retailing models. Already over a decade ago, Webb and Hogan (2002) observed that as much of the research on multichannel dynamics has been theoretical in nature, there is need for empirical research to better understand factors affecting multichannel conflict and this fact still holds.

As channel conflict studies have concentrated on vertical conflict arising between manufacturers and resellers, there is a clear need for studying the channel conflict triggered within an organization. This is because managing arising conflict should be emphasized already when formulating multichannel strategy and operating models in the first place and in order for practitioners to do this, a clear view and understanding on the sources of conflict needs to be obtained (Rosenbloom 2007).

1.2. Research objective

This study aims to evaluate the challenges faced by multichannel retailers as they aim to integrate their physical store channel and online sales channel in order to adapt to changing customer needs and purchasing patterns. In order to contribute to the research field, this study aims to review and compile the findings of prior research on channel conflict and later use the empirical part to strengthen the views established. In particular, this study will concentrate evaluating which areas of business can be identified to be triggering channel conflict within organizations. The aim is also to use this insight as a basis for identifying strategies that firms use to manage and control channel conflict and promote cooperation. The research is conducted among managers of retailing companies and industry consultants with extensive experience in working with multichannel retail organizations.

Overall, the objective is to build a more comprehensive understanding on the intra-organizational inter-channel conflict phenomenon, the research questions being:

1) *What underlying factors trigger intra-organizational channel conflict when retailers pursue the integration of physical and online channels?*

2) *How can organizations control and manage intra-organizational channel conflict?*

1.3. Structure of thesis

The thesis consists of five chapters. The introduction aims in building an understanding on the need and motivation for the study as well as introducing the research gap and research objectives. The second chapter introduces the theoretical findings in the area of research and presents the research model used as a foundation for the data gathering and analysis for the empirical part of this study. The third chapter outlines the methodology, the research design and the analysis of data in this study. The fourth chapter presents the findings from the interviews. The fifth chapter will summarize the findings, present the revised theoretical framework, discuss further interpretations that can be made from the findings, reflect on theoretical and managerial

implications of the study as well as present limitations of the study and take a stand on potential future research.

1.4. Definition of key terms

Sales channel: In the study, the definition of sales channel incorporates all acts of selling and marketing products to the end consumer. All activities of the sales channel happen within the company of study.

Physical channel: Physical channel refers to the physical store network (brick-and-mortar) built and managed by retailers.

Online channel: Online channel refers to channels that consumers use to purchase items from a retailer using digital devices (computers, mobile phones or tablets).

Multichannel retailing: Multichannel retailing refers to retail companies using multiple sales channels to reach customers. In this study only the physical and online channel are investigated, while e.g. direct sales force and catalog sales are not looked at. It is noteworthy, that in many cases the term multichannel has been replaced by the term omnichannel, which in addition takes into consideration engagement with customers via social media. However, as this study only looks at dynamics relating to the online and physical sales channel the term multichannel retailing is used.

 As multichannel retailing can include physical merchandise retailing and service retailing (entertainment, information, travel etc.) with differing logics in tangibility of offering and distribution mechanisms, a limitation is required. This study will concentrate on physical merchandise retailing, and especially on general merchandise.

Channel management: In their matrix Webb and Didow (1997) effectively illustrate four different research perspectives for channel management.
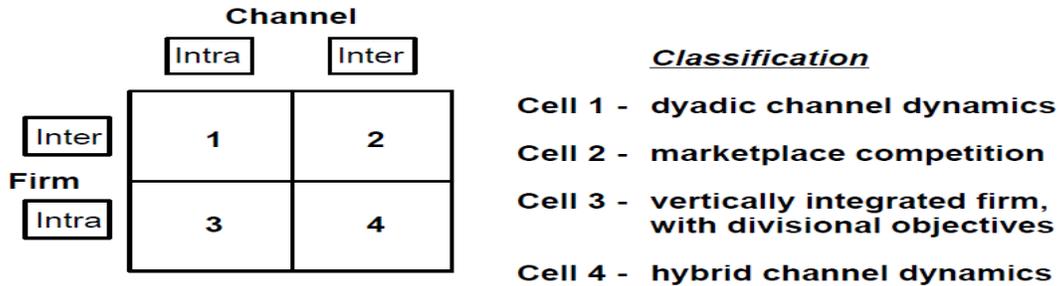
Figure 1: Channel Management: Four Research Perspectives (Webb & Didow 1997)

The first dimension – Channel – distinguishes between channel management dynamics that take place within a single channel (*Intra)* and those that arise between different channels (*Inter*). The second dimension – Firm – distinguishes channel management dynamics that take place between two or more different companies (*Inter)* and ones that occur within a single firm (*Intra*).

This study will concentrate on **intra-organizational inter-channel management**, referring to channel management dynamics arising between different channels within one single firm (Cell 4).

Segregated channels: No flow of information, goods and money between channels. Channels are operated separately and are different profit and loss units with no alignment of goals. No cross-channel promotion or cross-channel services exist.
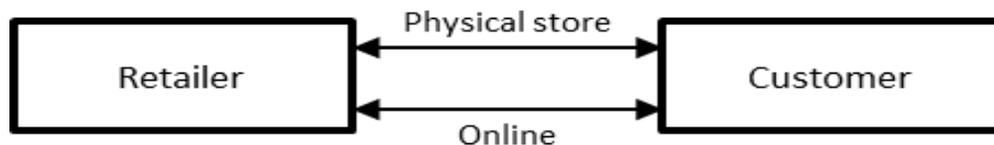
Figure 2: Segregated Channels

Integrated channels: In a fully integrated channel system, the flow of information, goods and money is flexible between different channels and the company aims for maximization of profitability in total.
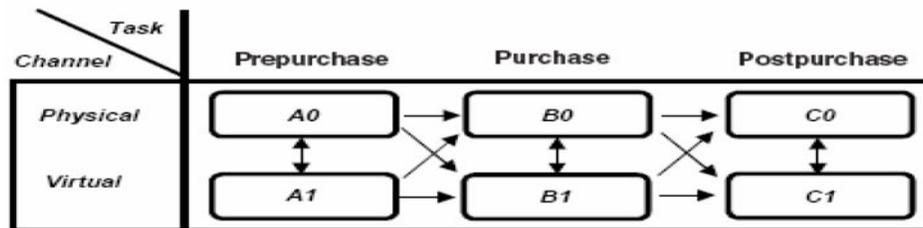
Figure 3: Use of Physical and Virtual Channels in an Integrated Click-and-Mortar Business (Steinfield et al. 2002b)

A customer may e.g. gather information about a product offline (A0), purchase it online (B1) and obtain after-sales service offline (C0). One can generalize that the more integrated the channels become, the more paths are possible for the customer.

Assumption: all multichannel retailers are situated at some stage of the continuum between a segregated and fully integrated channel system

2. LITERATURE REVIEW

This chapter provides an overview on the findings of prior research in the field of multichannel retailing. A variety of distinct streams of scientific literature is studied. Insights are drawn from the literature on multichannel strategy formulation, marketing literature concentrating on managing multiple retail channels and supply chain management as well as research on inter-functional and inter-organizational cooperation. Following a general overview, the section will build understanding on the challenges of formulating and implementing multichannel strategies, succeeded by a review into the structures of multichannel systems. Then the intra-firm inter-channel conflict phenomenon will be examined thoroughly in order to identify what is triggering channel conflict and how can the tensions be controlled and managed. To conclude this chapter, a research model to support the empirical part of the study will be introduced.

2.1. Overview of approaches to multichannel retail studies

There exists a long tradition in marketing studies to study issues arising from selling goods across multiple channels, but with the emergence of the internet as a viable channel for conducting sales, studying multichannel strategies and coordination has acquired an additional importance. Multichannel retailing has been approached by researchers from various angels. Levary and Mathieu (2000) conducted a study on the profits of physical retail stores, online stores and hybrid stores and they argued that in the future hybrid retailers would have the maximum profits. In their separate studies King et al. (2004) and Bernstein et al. (2008) used game theoretic analysis, and the findings were similar in showing that a multichannel approach arises as the equilibrium channel structure. They, however, observed the multichannel approach does not necessarily offer higher profits, but rather it is a strategic necessity resulting from the competitive pressure by other retailers and consumers' demand. Looking at the issue from a customer perspective, Kollmann et al. (2012) developed a typology to classify different segments of multichannel customers.

The integration of channels has also been studied by academics, for instance, Yan et al. (2010) found that in order enhance performance, both the online and physical channels need to employ the strategy of channel integration with profit sharing. They identified that using profit sharing

mechanisms as a mean of channel coordination has long been recognized affective in the video-rental industry and in franchising (e.g. fast food and hotels). A body of research has also focused on synergies and conflicts arising in a multichannel environment (Webb & Didow 1997; Montoya-Weiss et al. 2003; Steinfield, 2004; Ward 2001). The synergies imply that advantages of integrated multichannel systems may result from spillover effects that each channel can have, leading to increased purchases and cost reductions (Ward 2001), while the conflict may results from e.g. one channel cannibalizing the sales from another (Zhang et al. 2010; Montoya-Weiss et al. 2003; Steinfield 2004). However, the majority of studies conducted in regard of channel integration within a company view the issue from a broad perspective pinpointing the main challenges and opportunities of integration (e.g. Neslin et al. 2006; Zhang et al. 2010) or study the issue from a customer viewpoint (e.g. Chatterjee 2010; Verhoef et al. 2007). Many studies on integration also concentrate on to-do lists on what is needed in order to achieve integration, for example Berman and Thelen (2004) evaluate different strategic approaches and provide a check-list for retailers to assess their readiness to undertake a multichannel strategy. Even though there exists a body of research on integration of channels within a company, academics argue that there is a lack of research on how management handles the integration of multiple sales channels in general (Berry et al. 2010; Zhang et al. 2010) and what managers can do to cope with conflict in a multichannel retailing systems (Webb & Lambe 2007).

2.2. Formulation of multichannel strategies

Defining multichannel strategy is a core marketing challenge that is going to continue to have an increasingly significant impact for future success of retailers. This is the case because customers are demanding an increased amount of channel options while technology has enabled the emergence of multiple channels and made them economically feasible (Verhoef & Donkers 2005). In addition to changing customer preferences prior research has also identified additional reasons to utilize multiple channels, one being that consumer response to marketing mix variables are heterogeneous and therefore different types of channels may allow the company to take better advantage of related opportunities (Webb & Didow 1997). Firms with broad and diverse product lines can also benefit from using multiple channel types, because it is very unlikely that a single

given channel would be most appropriate for all products (ibid). Improved marketing research can also be seen as a significant reason behind the growing phenomenon of utilizing multiple channels, as it allows companies to be more precise in target market segmentation, supporting the increasing customization of the firm's distribution strategy (ibid).

In the emergence phase of multiple channel systems researchers perceived that the primary reasons for establishing multichannel arrangements were the desire to reduce costs, increase market share and compete with pure e-commerce companies (Frazier & Antia 1995). Looking back on the actions taken by many traditional retailers the desire to compete with pure e-commerce players led to the establishing of separate web-stores, managed with the same principles that have been applied by pure e-commerce companies. Even though traditional retailers have been able to achieve market share in e-commerce services, very few have managed to cut costs or increase their total market share of goods sold, by implementing a separately managed new digital channel.

After the dot.com boom and failure of many e-commerce attempts, the role of evermore integrated digital and physical channels has gained attention and support among practitioners and academics. The fundamental reason to integrate can vary between different visions of benefits. Neslin and Shankar (2009) suggest that pursuing integration is based on at least three type of benefits envisioned: *cutting costs, better segmentation of customers* and *increased customer satisfaction*. Steinfield et al. (2002a) also highlight cost savings and segmentation as a synergy benefit, but also add the possibility for *differentiation through value-added services* offered in collaboration between the channels, *improved trust for the digital channel* as well as possibility for *expanding to new product and geographic markets*, as potential drivers. Further potential benefits are introduced by Gulati and Garino (2000) as they state that obvious benefits include *cross-channel promotion, shared information for decision making, purchasing leverage* and *distribution economies*. In addition to the benefits mentioned above, demand synergies for products and services offered in multiple channels are emphasized, as consumers prefer to interact with the retailer on their own set terms at any time or place they choose to and preferably through multiple seamless interfaces (Zhang et al. 2010).

Scientific and consulting literature seems to agree on the fact there is no correct generic solution for a multichannel strategy for retailers. This is highlighted by Müller-Lankenau et al. (2004) as they state that due to the rapidly evolving multichannel environment and to the changing customer preferences, retailers face the challenge of defining a multichannel strategy that both ensures economic viability as well as customer acceptance, while creating benefits that outweigh increased costs for both the company and its customers. Therefore, it becomes evident that the chosen strategy should be very highly dependent on the capabilities of a retailer as well as the desired positioning in the market environment.

The reality is that many of the benefits of multichannel retailing envisioned by retailers have not realized and companies are constantly struggling with the integration of their physical and digital channels (Zhang et al. 2010). Also despite all the synergy benefits identified, there is very little knowledge and understanding on which benefits govern strategic decision making and which challenges restrain companies of pursuing an integrated channel strategy (ibid). In his study on B2B markets Rosenbloom (2013, 6-7) brings forth that the pursuit of an effective multichannel strategy raises four key challenges to be addressed: *1) Finding the optimal multichannel mix; 2) Creating multichannel synergies; 3) Avoiding multichannel conflicts*; and *4) Gaining sustainable competitive advantage via multichannel strategy*.

2.3. Multichannel structure

Formulating and implementing a multichannel strategy is a comprehensive organizational issue, as retailers are affected by challenges both in their customer facing strategies and back office processes. Retailers need to transform their front-end operations to address and comply with consumers' increasing expectations of multiple sales channels. These expectations involve the launch and operation of multiple channels and ideally the seamless integration between the channels, whereas retailers also need to implement an operating model to support the chosen channel strategy and overcome operational challenges. A very core issue for retailers is therefore the multichannel mix and structure.

It is central to study the differing structures of multichannel systems in which the roles of channels differ sometimes very substantially. In order to build understanding on this, two issues in particular are looked at a) to what extent are multiple channels integrated; and b) what is the added value achieved from the new online channel. Various approaches to describe potential structures have been taken by researchers. For instance, Müller-Lankenau et al. (2004) built a framework using channel integration and channel domination as classification criteria, highlighting the alternative roles and relative strategic positions that online and offline channels can take in distribution strategies. To base their framework they used the grocery industry as an example. In the approach a retailer can choose between four different multichannel strategies: *Offline-dominated*, *Online-dominated*, *Isolated* and *Integrated*.

A more straightforward view is taken by Chatterjee (2010), who states that when implementing and managing multiple channels a retailer has two strategic options to choose from: 1) the retailer can operate the multiple channels as independent entities where the channels basically work as separate firms; or 2) the retailer can integrate the multiple channels to allow cross-channel movements of products, money and information. In their case study Gulati and Garino (2000), however, highlight that integration of companies is in reality not such a simple two choice decision proposed by Chatterjee (2010) as they identified that elements such as management and brand can also be moderately integrated or some functions can be integrated while others remain segregated.

In order to best describe the current situation of retailers, the distinction made by Chatterjee (2010) is used to illustrate the structures of multichannel systems. This decision is made in order to clearly distinguish between the different business models and strategic decisions undertaken by companies. This separation is very important because the two business models are imposed with different benefits and different challenges, as will become evident in the upcoming chapters of this review.

2.3.1. Segregated channels

Segregated channels, refers to a channel strategy in which a company operates its physical and digital channels as independent entities. This has been the case in most retail companies, as many of them maintain separate teams for central elements such as inventory management, merchandising, marketing, finance, analytics and even product portfolio decisions (Zhang et al.

2010). Running segregated channels can be seen as a natural step in the process of implementing a digital channel, as the reason for implementing the new channel has in many cases been to answer to both the customer demand as well as the competition brought on by pure e-commerce companies. The decision of operating the channels separately is often justified by idea that the online and physical channel operate on a very differing logic in pricing, product assortment, supply chain structure and inventory optimization and therefore, in order to achieve the best potential of each channel, they need to be kept separate (Zhang et al. 2010).

Advantages of segregation

Segregated channels are often run by a decentralized organization structure (Zhang et al. 2010). This offers a variety of advantages. First, it allows greater focus on and more flexibility to respond to the unique competitive situations arising in each of the channels. Second, the retail mix of each channel can effectively by adjusted to serve the different market segments that they are aimed for. Thirdly, it also helps companies to attract and retain experts and managers with experience of operating a certain channel. (Gulati & Garino 2000; Steinfield et al. 2002a; Zhang et al. 2010.)

Challenges of segregation

The major challenge of running the channels independently is that the lack of coordination and shared merchandising activities can easily cause inconsistent customer experiences, which causes customer dissatisfaction (Zhang et al. 2010; Berman & Thelen 2004; Webb & Hogan 2002; Steinfield 2002). A major challenge is that the two different channels simply cannibalize the sales of each other. The threat of such cannibalization has the potential to cause conflict and endure harmful effects for the retailer in whole, including limited coordination between channels and even the sabotage of one channel by the other (Steinfield 2002; Zhang et al. 2010). The segregation also creates inefficiency as duplicate teams are maintained to manage the same operations (Zhang et al. 2010).

2.3.2. Integrated channels

Steinfield et al. (2002b) have constructed a graphical representation (Figure 2) illustrating the information and material flows of an integrated multichannel business. The graphic very efficiently

depicts the essential elements of an integrated channel system. In an integrated multichannel structure, a customer may for example gather information about a product offline (A0), purchase it online (B1) and obtain after-sales service offline (C0). One can generalize that the more integrated the channels become, the more paths are possible for the customer. When a company integrates its channels, it tries to tightly coordinate the use of them, even within a single sales activity, in order to improve overall profitability (Anderson, Day & Rangan 1997; Steinfield et al. 2002b).
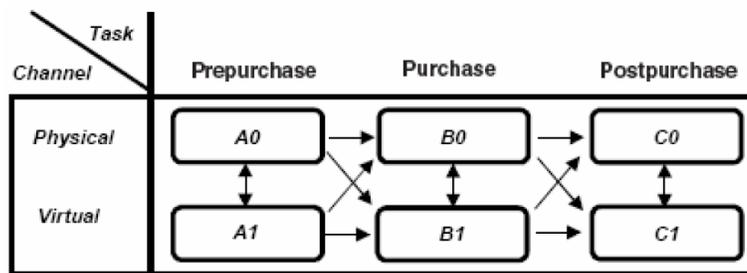
Figure 4: Use of Physical and Virtual Channels in an Integrated Click-and-Mortar Business (Steinfield et al. 2002b)

Advantages of Integration

In addition to responding to the customer demand, the integration of physical and digital channels enables companies pursuing an integrated channel strategy to seek for and achieve synergies that may not be achievable for companies that run segregated channels (Steinfield et al. 2002b; Zhang et al. 2010). In their study on synergies in click-and-mortar applications Steinfield et al. (2002b) have identified sources of benefits achievable when retailers successfully harmonize their physical and virtual channels. These potential benefits are depicted in Figure 3. Similar to this view Gulati and Garino (2000) emphasize distribution economies, enabled by using existing locations as pick-up points for online purchases and initiation point for local deliveries. They also bring forth the increased effectiveness of promotion done across channels, the shared information for decision making as well as purchasing leverage obtained through harmonizing the processes.
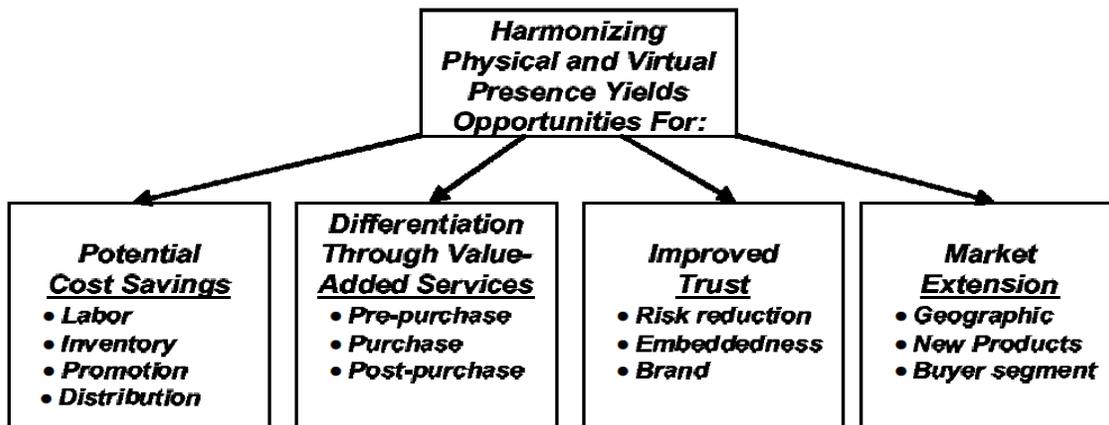
Figure 5: Framework for Identifying Sources of Benefits from Click-and-Mortar Applications (Steinfield et al. 2002b)

Challenges of Integration

As highlighted above there exists a variety of potential benefits to be achieved from the integration, however, retailers are struggling with integration initiatives. In most cases the challenge of integration comes down to three factors: costs of integration, channel conflict and strategic issues (Chatterjee 2010). The costs part and strategic implications are evident. First, the costs are high as the integration requires heavy monetary and intellectual investments, and the multichannel environment is evolving at a very rapid rate putting pressure to constantly invest and reinvent in order to stay in the game. Secondly, executives of many retailers have experience in leading traditional physical store networks, but lack experience on formulation of strategies and management of multichannel systems and therefore struggle in defining clear strategic directions in the multichannel environment.

The third challenge, channel conflict, interestingly comes up in all research and consulting literature handling the integration and management of multiple channels. However, very little research has been conducted within this area, that is identified as a major challenge and inhibiting

factor for integration processes. Therefore, in the following parts of this study a deep dive into multichannel conflict is undertaken.

2.4. Multichannel conflict

Prior scientific literature has to most extent concentrated on channel conflict occurring when the digital era has enabled manufacturers and suppliers to establish their own direct sales channels that compete with the traditional intermediaries and physical retailers (vertical conflict). However, it is important to note that company internal channel conflict is distinct from vertical conflict. The aim of this study is to evaluate the conflicts arising within companies when traditional retailers launch a new channel to adapt to changing customer needs and purchasing patterns.

Webb and Didow (1997) state that "conflict in hybrid channels is primarily a result of different channels competing with each other over limited external resources in the form of customers". This kind of competition has the potential of increasing customer confusion and dissatisfaction. However, multiple channels also place conflicting demand on a variety of company internal resources, such as capital, personnel, products, services and technology (Webb & Hogan 2002).

2.4.1. Characteristics of channel conflict

In most cases, channel conflict is an inevitable stage in adapting to the on-going environmental changes and it can actually support the development of the multichannel system through healthy competition between the channels (Coughlan et al. 2006, 283; Zhang et al. 2010). Thus despite the general negative connotation, research on conflict does not support the idea of automatically judging channel conflict as a defect and thus something to eliminate. Instead of eliminating conflict, it requires monitoring and management (Coughlan et al. 2006, 283).

Prior research perceives it important to understand the difference between competition and conflict (Zhang et al. 2010). Simply put, competition is goal- or object-centered, while conflict is opponent-centered behavior (Stern et al. 1996). Coughlan et al. (2006, 244) argue that companies utilizing multiple sales channels must expect that competition will exist among its channels, and that there is nothing wrong with pure healthy competition among channels. However when channels become

more and more similar in respect of what they offer or as goals of the channels become incompatible, behavior becomes opponent-centered, resulting into conflict between the channels (ibid).

Conflict can take different forms, and it can be useful when it is functional (Coughlan et al. 2006, 247). Functional conflict exists in a situation in which opposition actually enhances the relationship between channel coalitions. This kind of benefits can realize in the form of driving each other to better performance, forcing internal channel coalitions to work harder and smarter to serve the chosen markets, or in challenging each other to rid of old habits and assumptions (Webb & Hogan 2002; Coughlan et. al. 2006, 247). Functional conflict can be achieved when members of different channels realize the contribution of the other party, as well as recognizes that the success of each channel and its members also depends on the success of the other channel (Coughlan et al. 2006, 247).

Low level of channel conflict can be perceived as something to strive for; however, a situation with low level of conflict might also culminate in negative consequences. A state of low level of conflict can be positive if it is a result of good management, but negative if it is a result of indifference (Coughlan et al. 2006, 247-248). In the state of indifference channel coalitions do not either agree or disagree, they simply do not care, which prevents all development. (Coughlan et al. 2006, 248-249). In reality, however, much of channel conflict is destructive (Coughlan et al. 2006, 248) and this type of conflict is generally called dysfunctional.

2.4.2.   Antecedents and Consequences of Multichannel Conflict

To build understanding on why channel conflict exists and why it is a major issue to consider, the antecedents and consequences of multichannel conflict are studied. In order to depict the findings of earlier research, an adapted version of the Conceptual Model originally built by Webb and Didow (1997) is used. The model aims to depict the hypothesized relationships among the antecedents and consequences of multichannel conflict. The original model is built for supplier companies and includes a *Life-Cycle Stage* variable, as the researchers perceive that the stage on the demand life cycle of a product influences the effect of channel conflict. However, in order to support this research the model was modified by taking out the *Life-Cycle Stage* variable so that it

became more suitable for general merchandise retailers with a large variety of goods sold with most in different maturity phases of their demand life cycle.

Antecendents and Consequences of Multichannel conflict
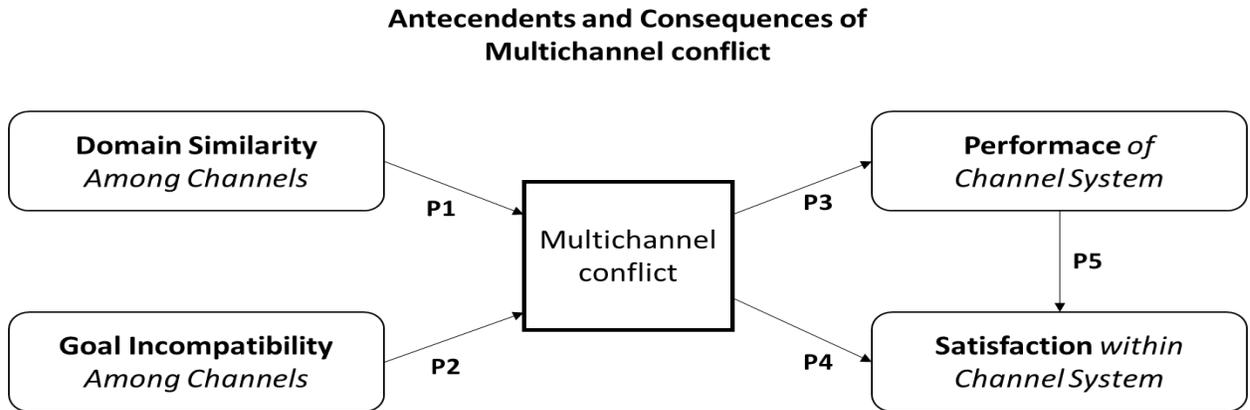
P1: The greater the domain similarity among channel coalitions, the greater the level of multichannel conflict

P2: The greater the goal incompatibility among channel coalitions, the greater the level of multichannel conflict

P3: The greater the level of multichannel conflict, the lower the level of performance within the channel system

P4: The greater the level of multichannel conflict, the lower the level of satisfaction within the channel system

P5: The greater the the the performance of the channel system, the higher the level of satisfaction within the system

Figure 6: Modified Conceptual Model (adapted from Webb & Didow 1997)

Antecedents of multichannel conflict

Coughlan et al. (2006, 256-257) perceive that most of channel conflict is rooted in differences in what channel members consider to be their domains, referring to the areas where they believe they should operate with autonomy, but also identify differing goals and perceptions of reality as major root causes of channel conflict. On the other hand, in their *Conceptual Model* Webb and Didow (1997) depict two main antecedents for multichannel conflict, which they argue to be *Domain Similarity* and *Goal Incompatibility*.

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Domain Similarity exists among channels when they must utilize the same base of limited internal and/or external resources (Webb & Didow 1997). Webb and Didow state that "the greater the overlap in resource requirements among channel coalitions and/or the more limited the resource base, the greater the domain similarity". Similar to this view, Coughlan et al. (2006, 256) perceive that conflict occurs when channels are potentially competing with each other for the same business, and call this the "clash of market domains".

Stern et al. (1996) identify four critical elements of a channel's domain: the population to be served, territory to be covered, functions or duties to be performed, and the marketing technology employed. Building on a similar view Webb and Didow (1997) have identified external and internal sources of domain similarity in the context of systems with multiple channels. They perceive that external domain similarity consists of the population of customers served, the range of products offered, and the services offered or functions performed; while the sources of internal domain similarity include funding allocation, employee skills and shared infrastructure to perform operations.

Webb and Didow (1997) perceive that *Goal Incompatibility* exists among channels when the objectives of all the channels cannot be attained concurrently i.e. when a given channel succeeds in achieving its goals, it will be at the expense of at least one other channel in the firm. Such goal incompatibility between different channels can be related to for example conflicting targets in revenues, profits, growth rates or market share (ibid). Incompatible goals of different channels result to opponent-centered behavior leading to conflict between the different channels within a company. Eliashberg and Michie (1984), however, found that tension between channels is not necessarily so much a result of incompatibility between goals, but rather channel members' perceptions that their goals would diverge more than they do in reality. Be the root cause the incompatibility or the perceptions, it is important to note that as this study is addressing channels within one company, the top management has the possibility to highly influence and manipulate goal compatibility/incompatibility with their own actions.

Consequences of multichannel conflict

Research on dyadic channel conflict has found that *Performance* and *Satisfaction* are the two most important outcome variables from channel conflict (Webb & Didow 1997; Cronin & Baker 1993; Gaski & Nevin 1985). Regarding multichannel conflict, Webb and Didow state that *performance* can be evaluated by using both objective and subjective measures of several dimensions. Such performance measures include a channel system's effectiveness, productivity or efficiency, profitability, growth and equity. Regarding the *satisfaction* variable in a multichannel system the emphasis is on working relationships among different channels rather than on satisfaction on performance or structure of the overall channel system (Webb & Didow 1997).

2.4.3. Sources of multichannel conflict

Until this stage, the review has indicated that intra-organizational channel conflict in multichannel systems is a major challenge when managing and integrating sales channels. Also prior research on the characteristics of multichannel conflict, as well as the antecedents and consequences have been reviewed to create a basis for building an understanding on the channel conflict phenomenon. The following part will shed light to the sections of business where channel conflict most strongly stems from.

Even though intra-organizational channel conflict has been highlighted by scientific literature, a clear picture on this part, which this study refers to as *sources of conflict* has not been built and very little emphasis has been put on compiling the various sources of intra-organizational channel conflict in order to better understand the phenomenon. Therefore, the following part aims in elaborating on the sections of business that prior literature has loosely identified as the major areas where conflict arises. The potential sources of conflict identified by prior research have been compiled in Table 1. The aim is to build a framework on the origins of intra-firm channel conflict that can be utilized as a basis for the empirical study.

Table 1: Sources of intra-firm inter-channel conflict in multichannel retail organizations

Antecedents of channel conflict	Domain similarity Goal incompatibility	Webb & Didow 1997 Coughlan et al. 2006
Potential sources of conflict identified in prior research	Fear of cannibalization	Zhang et al. 2010 Dholakia et al. 2005 Gulati & Garino 2000 Rosenbloom 2007 Steinfield 2004 Montoya-Weiss et al. 2003
	Organizational structure	National Retail Federation & shop.org 2013 Zhang et al. 2010 Gulati & Garino 2000 Neslin & Shankar 2009
	Competing distribution systems	Metters & Walton 2007 Gulati & Garino 2000 Niels et al. 2008
	Pricing and promotions	Gulati & Garino 2000 Berman & Thelen 2004 Neslin & Shankar 2009 Niels et al. 2008
	Data collection and usage	Shop.org & J.C. Williams Group 2008 Zhang et al. 2010 Chatterjee 2010
	Compensation schemes	Zhang et al. 2010 Aberdeen group 2005 Yan et al. 2010
	Performance metrics	Zhang et al. 2010 Steinfield et al. 2002a
	Skills and knowledge	Zhang et al. 2010 Min 2000
Consequences of channel conflict	Performance Satisfaction	Webb & Didow 1997 Coughlan et al. 2006

Many of the conflicts identified in this study relate to operational difficulties in managing and integrating channels. The sources of conflict stated in Table 1 will be elaborated upon in more detail below.

Fear of cannibalization

A great deal of conflict from adding a new channel stems from the fear of cannibalization, in other words the fear of customers shifting sales from existing channel to another one (Zhang et al. 2010). A variety of studies highlight the fear of cannibalization as a central source of conflict, yet the topic is not elaborated in much detail. In many cases, fear of cannibalization simply inhibits the desire to proceed with multichannel initiatives. A study by Dholakia et al. (2005) however shows that when retailers add a new channel for interaction, instead of replacing exiting channels, customers add the new channel for shopping. Also synergies from employing multiple channels offer potential enhancement in total productivity and customer value (Zhang et al. 2010). This indicates that if the fear of cannibalization exists it should be very effectively managed by clear communication, performance metrics and sharing of the rewards between the channels, which will be further elaborated upon later in this study.

Differing distribution systems

Digital channels and traditional physical operations operate under differing demand and cost structures, product variety issues as well as supply chain structure and inventory configurations (Metters & Walton 2007). Retail distribution centers supporting physical stores are designed and configured to move pallet and carton loads of merchandise from inbound to outbound deliveries with minimal handling, while distribution centers supporting the online channel needs to be designed to break the pallet and carton loads to individual picked items to be repackaged and shipped to individual customers. Both channels therefore require very different packaging and inventory holding policies to accommodate the trade. Integrating channels would require major investments in inventory control and logistics (Chatterjee 2010), as well as require companies to reconfigure regulations and processes for inbound, outbound as well as reverse logistics.

Data collection, standardization and interoperability

Integrating channels requires significant investments in fusing and standardizing data on customers and interactions, which have been collected in different systems. Often this data may be efficient for the use of one channel but simply not interoperable with the data collected in the other channel (Chatterjee 2010). According to an industry report, retailers seem to have a consensus on the matter

that centralized data warehousing is needed, be their preference in an integrated or segregated management structure (Shop.org & J.C. Williams Group 2008). However, efficient inward flow and storage of data does not automatically produce much benefits and insight on the market and customer dynamics. As traditional data collection and management is very centered on a certain channel, the ability of retailers to measure the profitability of multichannel consumers is very low (Zhang et al. 2010). This calls for the need of new ways of tracking customers across channels and developed analytics to produce information for decision-making.

Organizational structure

Creating an appropriate organizational structure is one of the greatest challenges faced by multichannel retailers and there has been very little research in the marketing literature on the most effective organizational structure for multichannel retailers (Zhang et al. 2010). According to a recent view, the decision of organizational structure comes down to deciding between three approaches: centralized vs. decentralized vs "semi-integrated", and at the moment the "semi-integrated" structure seems to be the dominant organizational structure of multichannel retailers (National Retail Federation & shop.org 2013). Another industry study undertaken 5 years prior indicated that retailers running a decentralized organizational structure have experienced tremendous growth and profitable returns, however over a longer period the lack of integration has resulted in customer confusion and inefficiencies (Shop.org & J.C. Williams Group 2008). The same study also states that cross-channel collaboration is most likely achievable when it becomes a top-down mandate. This all brings forth the fact that instead of examining short-term results, research need to concentrate on what happens to the sales growth and profitability in the long-run.

Already in the early studies on the matter Gulati and Garino (2000) stated that there is no one-size-fits all solution for organizing a multichannel retail organization, but it is very dependent on the current distribution and information system, current management structure as well as the history of the company. As retail companies are based on different owner structures, the history is evermore emphasized. Zhang et al. (2010) state that channel conflict is bound to exist in all multichannel organizations, but a silo managerial approach seem to escalate the problem. Day (2011) on the other hand suggests that organizations are having major troubles in restructuring and

transforming their organizations and explains that the challenges in reorganizing culminates in two barriers: organizational rigidities and lagging reactions.

Compensation schemes

In order to encourage cross-channel coordination multichannel retailers need to redesign compensation schemes (Zhang et al. 2010). Incentives drive employee behavior and if employees are not given right kind of incentives that support collaboration between channels, conflicts can and will occur. Therefore, companies operating multiple channels and aiming for cross-channel collaboration between the channels need to analyze and modify their compensation systems to meet the needs of the new environment. In this process, the compensation systems ranging from top management to sales associates and customer service representatives need evaluation. Paula Rosenblum, the director of Retail Research at the Aberdeen Group argues that designing compensation incentives aligned with strategy makes it possible for retailers to embrace cross-channel collaboration within the often decentralized organizational structure (Schuman 2004). However multiple challenges exist in this area, e.g. in what way is it possible to reward digital channels that bring additional sales to physical stores or how can store associates be rewarded for cross-sales for goods only offered in online or catalog channels (Zhang et al. 2010).

Performance metrics

In order to measure profitability of customers and be able to effectively design compensation schemes, performance metrics need to be aligned with the new business environment. A study done by Aberdeen Group (2005) indicates that most multichannel retailers do not measure value created by multichannel initiatives. Zhang et al. (2010) state that in order to motivate multichannel collaboration there is a need to measure cross-channel effects. This is achievable by creating performance metrics taking into account idiosyncratic natures of different channels (ibid). It is rather clear that many of the well-accepted performance measures e.g. sales and gross margin per square meter are not applicable in the multichannel environment. When performance metrics are not aligned correctly, the value of multichannel initiatives are hard to estimate and communicate to the upper management. However, despite the fact that many researchers have identified the need

for redesigning performance metrics, no clear findings or consensus on suitable metrics have been achieved.

Pricing and promotions

A major deal of conflict is seen as being related to the difference of pricing and margins in different channels. Inconsistencies in price and promotions between channels cause confusion among customers, leading to dissatisfaction (Zhang et al. 2010). Due to this dissatisfaction, integrating channels forces retailers to uphold uniform pricing, positioning as well merchandising strategy across all channels (Chatterjee 2010). This naturally limits a retailer's capability in flexibly responding to competition in both the physical and digital channels, as well as limits possibilities to differentiate among different consumer segments (ibid). Therefore, retailers face the decision on either harmonizing the pricing in order to reduce conflict and consumer confusion or on the other hand pursuing different pricing strategies to flexibly maximize profits in individual channels (ibid).

Skills and knowledge

A common view is that the top management of retail organizations do not possess the required knowledge and skills in managing the new retail environment. In order to attract skilled e-commerce professionals, retailers have needed to organize the company in a way in which e-commerce units have been given high independency (Zhang et al. 2010). Yet, this has hindered the integration of the physical and digital channel (ibid). An additional challenge is inflicted by the fact that also in-depth functional expertise is crucial for success, as there is need for mastery of increasingly sophisticated concepts and methods (Min 2000, 382). The need to attract and retain both people with understanding and experience on managing the multichannel environment as well as people with functional expertise places evermore emphasis on the education of employees, successful recruitment as well as designing an organizational structure to support the formation of cross-functional teams.

Summary of findings on potential sources of intra-firm channel conflict

Figure 7 illustrates the identified antecedents, consequences and potential sources of intra-organizational channel conflict highlighted by prior research. These findings are utilized in structuring the research model used to guide the empirical part of the study.
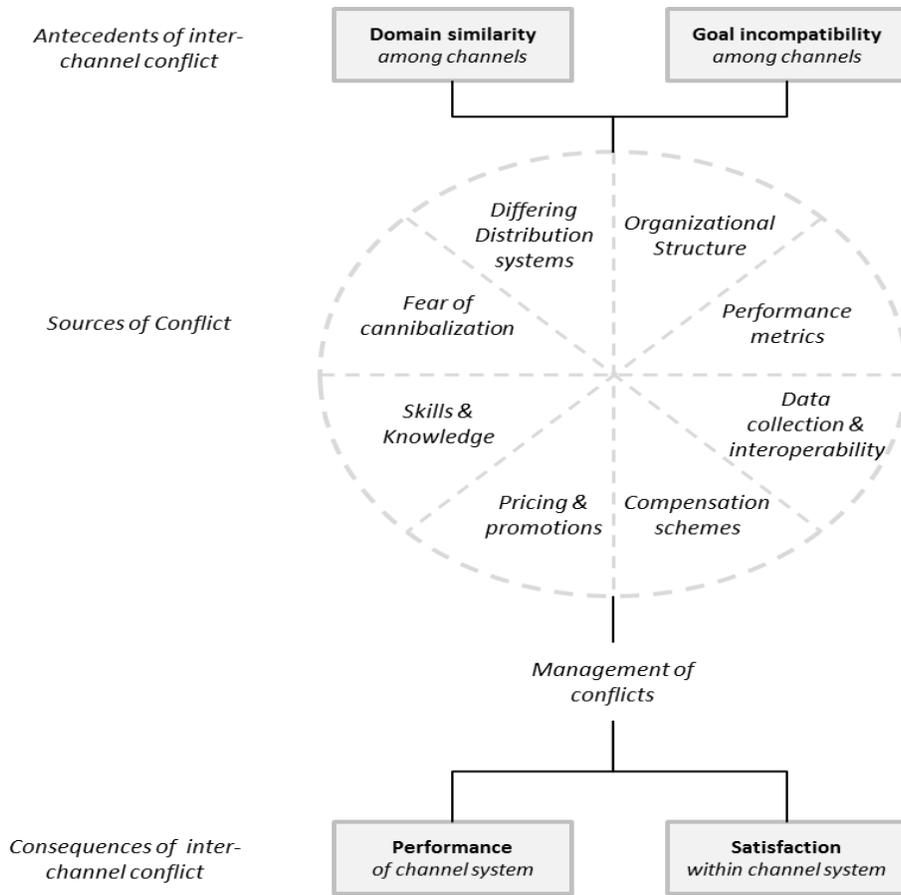
Figure 7: Antecedents, Sources and Consequences of Intra-Organizational Channel Conflict in Multichannel Retail Organizations

The section above aimed in building the understanding regarding the channel conflict phenomenon related to the integration of sales channels, because channel conflict imposes major challenges to

multichannel retailers and has the possibility to destroy a previously well-functioning multichannel system. If the conflicts and strategic implications of the channel integration are not managed properly, a cross-channel retailer with integrated sales channels could suffer from the integration and have a major disadvantage in comparison to competitors operating independently operated channels (Chatterjee 2010). It also becomes evident that the sources of conflict are interlinked, which places evermore need for comprehensive management initiatives to control and manage the arising conflict as well as take them into thorough consideration when designing the operating model.

2.5. Channel conflict management

Until know this study has identified challenges faced by retailers when they formulate multichannel strategies and approach the integration of their physical store channel and their online channel. The findings of prior research on the origins of channel conflict as well as the sections of business where it stems from have also been examined. As managing intra-firm, inter-channel conflict in a manner that maximizes the total company performance is seen as a key to success, the following section will concentrate on the findings of prior research on management of conflict in multichannel systems. In order to understand the activities required, a review was conducted and the findings were divided between three fundamental management interventions, which all include multiple aspects. The review is built and structured based on the findings of Steinfield et al. (2002b) adapted by Steinfield (2004).

Figure 8: Sources, Management Requirements, and Benefits of Click and Mortar Synergies (Steinfield 2004)

There is very little additional research linked directly to managing conflict and the model by Steinfield (2004) was originally built from the view of achieving synergies, while controlling conflict was a secondary benefit. Due to these factors, this study also aims at incorporating research on enhancing collaboration between multiple channels and functions in order to build a more comprehensive view. For this reason, research on inter-functional coordination was studied and the framework by Min (2000, 371-389) was identified as a tool to support the research and build knowledge on the matter. Figure 7 depicts a summary of Min's framework.
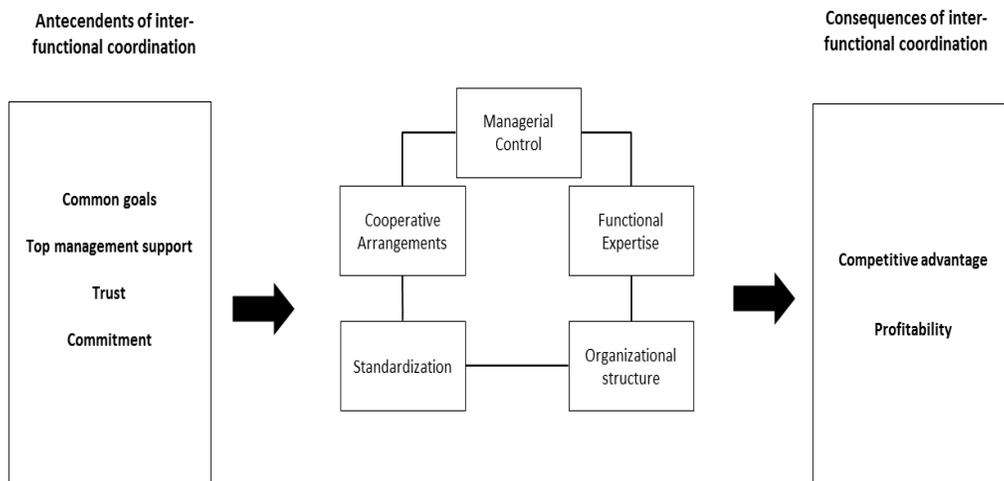
Figure 9: An Integrated Model of Inter-Functional Coordination (adapted from Min 2000, 375)

When examining the management of channel conflict, it is also noteworthy to acknowledge that when compared to vertical channel conflict that takes places between separate companies, the management of intra-organizational channel conflict offers top-level executives more possibilities for effective management, since they possess power and authority within their own company.

2.5.1. Goal alignment between channels

In their study Steinfield et al. (2002b) identified that aligning goals between the physical and digital channels is a major management task to be undertaken. They noticed that successful companies worked towards ensuring that all employees of the company realized that the parent company benefits from sales in either of the channels. In many of these successful cases, the primary focus of the online channel was not to act as an independent profit center, but to enhance customer relationships and provide indirect benefits to the customers. The need for aligning goals is strongly supported by research in general. Coughlan et al. (2006) state that driving towards achieving the goals of each channel through collaboration is the most effective conflict resolution style. This finding is also very much in line with the findings of Webb and Didow (1997) of goal incompatibility being a major antecedent for conflict.

In his study Min (2000, 375) also highlights the role of shared goals as a prerequisite for achieving effective collaboration between different functions and channels within a company. He also brings forth the fact that aligning goals refers to establishing clear objectives that are shared between the channels, which are not achievable without establishing clear and joint performance measures to be weighed against (Min 2000, 384). These performance metrics have been a major obstacle for many companies as a study done by Aberdeen Group (2005) indicates that most multichannel retailers do not measure value created by multichannel initiatives.

Zhang et al. (2010) highlight that in order to motivate multichannel collaboration there is a need to measure cross-channel effects. This is again challenging due to the different operating logics of the different channels. Steinfield et al. (2002b) highlight this challenge with performance measures as they found that the outcomes sought from integration included measures such as customer retention and customer profitability, which were difficult to measure. Therefore, they stated that companies would also need to include indirect benefits such as public image and customer loyalty to followed performance measures.

Linked to shared goals is the decision on which customers to target with multiple channels. Having access to new and distant customers has been perceived as a major motivation for companies to

pursue a multichannel approach (e.g. Moriarty & Moran 1990, Neslin et al. 2006) as e-commerce capabilities have allowed companies to better segment the consumer market as well as expand to new geographic areas. However, when managing the integration of channels Steinfield et al. (2002b) found that a major part of aligning goals was to concentrate on enhancing the customer experience of existing and shared customers among the different channels. This is something that really distinguishes a segregated channel approach from an integrated approach.

2.5.2.   Explicit coordination and control

A second identified fundamental type of management activity required was to build explicit mechanisms to support integration (Steinfield et al. 2002b; Coughlan et al. 2006; Webb & Hogan 2002). A prerequisite for cross-channel operations is to ensure a degree of interoperability between the channels (Steinfield et al. 2002b). In order for it to be possible to move products between channels, systems need to be developed to pass information between the channels. This is however not cheap nor easy as it requires the integration of new and old information systems. It also requires redesigning of marketing, business processes and other technical systems (ibid).

In his study, Min (2000, 380-382) calls for enhanced inter-functional collaboration via the standardization of work processes through behavioral formalization imposed by operating instructions. He argues that the creation of superior customer value requires organization-wide information gathering, coordination of customers' needs and competitors' capabilities between different functional areas within a company. However, enhancing collaboration and therefore reducing conflict through implementing processes to support and force cross-channel coordination is not addressed in-depth by the other research that has concentrated on managing conflict in multichannel retail organizations.

Instead of implementing strict processes to guide cooperation and manage conflict, researchers have called for cooperative arrangements. From their case study Steinfield et al. (2002b) discovered that in almost all cases channel cooperation was a result of taking explicit efforts to make sure that reward schemes were designed in the way that existing physical outlets were not penalized for the success of the e-commerce channel. In retail cases, this was made possible by for example allowing the local store to gain credit from the sale when a customer chose to pick and

pay an online purchase in the local store. This view is supported by the findings of other researchers that have discovered that incentive systems involving the sharing of rewards and risks is seen central to establishing and supporting common goals (Coughlan et al. 2006; Min 2000, 385; Hauser, Simester & Wernerfelt 1994; Yan et al. 2010). The importance of good reward sharing systems are also highlighted by the fact that they are less visible and therefore hard for the competition to copy, providing competitive advantage (Coughlan et al. 2006).

Additional cooperative arrangements also arise to importance. Min (2000, 377-378) and Coughlan et al. (2006) bring forth the importance of sharing information, which can be achieved through mechanisms such as formal and informal meetings and exchange of documented information between personnel concentrating on the operations of different channels. Steinfield et al. (2002b) also emphasize active cross-promotion between channels in order to grow sales in each channel. In their case study, they identified mechanisms such as providing discount coupons in one channel to be used in the other, as well as advertising and announcing events or features of another channel.

Continuing on the findings of Steinfield et al. (2002b), they discovered that in managing the multichannel system some companies took advantage of the strengths and weaknesses of the different channels by allocating services to the most appropriate one. However, even though this provided advantages in some cases, such as when customers were allowed to order customized products via the on-line channel and pick it up in the retail channel, the allocation of services also created confusion among customers and even led to some lost business.

2.5.3. Capability development

As skills and knowledge are identified as a source of conflict earlier in this study, the development of capabilities can also be seen as a major management task. Zhang et al. (2010) emphasized that due to the rather recent development and widespread use of multichannel approaches there is a lack of multichannel experts, making the recruiting and retaining of multichannel experts challenging. Steinfield et al. (2002b) discovered that in the cases that companies did not possess the correct resources companies needed to find partners to enhance capabilities that the company was lacking.

2.6. Research model to guide the empirical study

Figure 8 depicts the research model constructed. The model combines the findings of research on antecedents and consequences of channel conflict with the potential sources of channel conflict. Also based on the review above, three fundamental types of management activities were identified in order to manage conflict and enhance collaboration: *aligning of goals*, *implementation of explicit mechanisms to achieve integration* and *developing capabilities*. Central components of these three management activities have also been added to the model in order to concretize them and facilitate the empirical part of the study.

The function of the model is to support and guide the structuring of the empirical part of this study as well as guide the analysis of the empirical data. The first objective is to validate whether the identified sources of conflict are central in intra-organizational multichannel systems and find out whether additional sources are identified by the interviewed experts. The second part of the empirical study aims to build understanding on what companies are doing and can do in order to manage intra-firm channel conflict and if mechanisms that have not been observed by prior research are in place in studied retailing companies.

Domain similarity among channels

Goal incompatibility among channels

Fear of cannibalization

Data collection & usage

Organizational structure

Performance metrics

Competing distribution systems

Compensation schemes

Skills & knowledge

Pricing & promotions

Conflict

What are the most significant sources for intra-organizational conflict in a multichannel retail environment?

Goal alignment
- *Superordinate goals*
- *Aligning Performance metrics*
- *Acknowledgement of indirect benefits*
- *Focus on exististing customers*
- *Measuring cross-channel effects*

Explicit coordination and control
- *Interoperability of systems*
- *Processes to guide collaboration*
- *Reward sharing and incentives*
- *Cross-channel marketing*
- *Specialization*

Capability development
- Skills development
- Recruiting
- Alliances to fill in gaps

Strategies to manage channel conflict

Which management strategies do companies use to avoid and respond to arising conflicts?

Effects of managing conflict

Performance of channel system

Satisfaction within channel system

*What are the effects of managing the conflicts?*

Figure 10: Research Model

3. METHODOLOGY

This chapter will present the methodological aspects of this research. The first section of the chapter will introduce the selected research paradigm, which serves as a basis for the selection of the rest of the methodological elements. Next, the chapter will introduce the research design, elaborating on case study design selected, the collection and generation of empirical data as well as the approach to analyzing the collected data. To conclude, the quality criteria and research ethics will be addressed.

3.1. Research paradigm

A core issue in research is related to the acknowledgement of research paradigms. Paradigm can be regarded as the "world view that guides the investigator". Often researchers are highly concerned about the methodology, but forget that it is only one of three elements of a paradigm, the other ones being ontology and epistemology. Essentially, ontology can be described as "reality", epistemology as the relationship between reality and the researcher, and methodology as the techniques used by the researcher to discover that reality. (Sobh & Perry 2006.)

The four different paradigms of science are positivism, realism, constructivism and critical theory. The basis for the four paradigms is the question of knowledge creation, i.e. how can the findings of a research project be generalized to other situations? In *positivism*, reality is real and apprehensible and knowledge can be statistically generalized to a population. To a large extent, *positivism* concerns with testing of theory, by using quantitative methods. In *realism* reality is real, but only imperfectly and probabilistically apprehensible and the aim is to generalize to theoretical propositions and not to populations. Realist researchers need to triangulate any perceptions being collected and they mainly use qualitative methods. In the two other paradigms *constructivism* and *critical theory* reality is regarded as perception, and a generalization of one's perception to someone else's theory cannot be done. The findings when using these two latter paradigms are related to individual views of the world and create a world of multiple constructed realities. (Sobh & Perry 2006.)

The research in this thesis is guided by the realism paradigm. The philosophical position in realism is that reality exists independently of the researcher's mind, meaning that there exists an external reality (Sobh & Perry 2006). In realism research, triangulation provides a "family of answers" (Pawson & Tilley 1997, 115). Common methods used in the case of the realism paradigm consist mainly of qualitative methods, such as case studies and convergent interviews and the research design concerns selection of cases, referred to as replication (Sobh & Perry 2006). Replication in realism research refers to careful choosing of cases in which results are expected to be similar (literal replication) or contrary (theoretical replication) for predictable reasons (Yin 1994, 45-53).

In realism research, the researcher should begin by exploring prior literature on the phenomenon before beginning interviews, and continue to study prior research during the whole interview process, linking prior research to the findings as they enfold from the interviews (Sobh & Perry 2006). Miles and Huberman (1994, 17) advice that a preliminary conceptual framework about the underlying structures and mechanisms should be developed from the literature before beginning the collection of data. The conceptual framework and data collected will then determine how the findings are displayed (Sobh & Perry 2006). This prior knowledge is also very helpful in the selection of the interviewees. In other words, when using a realism paradigm a two-stage approach to research should be taken, one stage to build a conceptual framework and another one to confirm or disconfirm the framework (ibid).

3.2. Research design

The research design represents the structure and strategy used to conduct a specific research. A qualitative research method was chosen for this study. A qualitative study is selected due to the scarcity of prior researched in the field and due the method's ability to provide rich insight, consisting of explanations and descriptions on the phenomenon and behavior taking place within organizations (Miles & Huberman 1994). By incorporating a case study methodology, the study is able to gain data on the actions and perceptions of retailers and thus also acquire a systematic overview on the phenomenon.

3.2.1. Case study design

Yin (1994, 1) states that in general case studies are the preferred strategy when the investigator has very little control over events, when the focus is on a contemporary phenomenon within real-life context and when "why" and "how" questions are being asked. In this particular occurrence the research questions are formed using questions "what" and "how", however the essential finding sought after is "why is channel conflict arising" and "how are companies trying to manage it", and therefore the use of a case study is in line with Yin's (1994) generalization for the use of case studies. Yin also states (1994, 3-17) that the case study design is appropriate for studies of an exploratory, explanatory, and/or descriptive nature.

Yin (1994, 39-53) draws distinction between four major case study design options to select from, depending on whether the analysis is based on a single study or a multiple study and whether the approach is holistic or embedded. The four approaches are depicted in Figure 9.
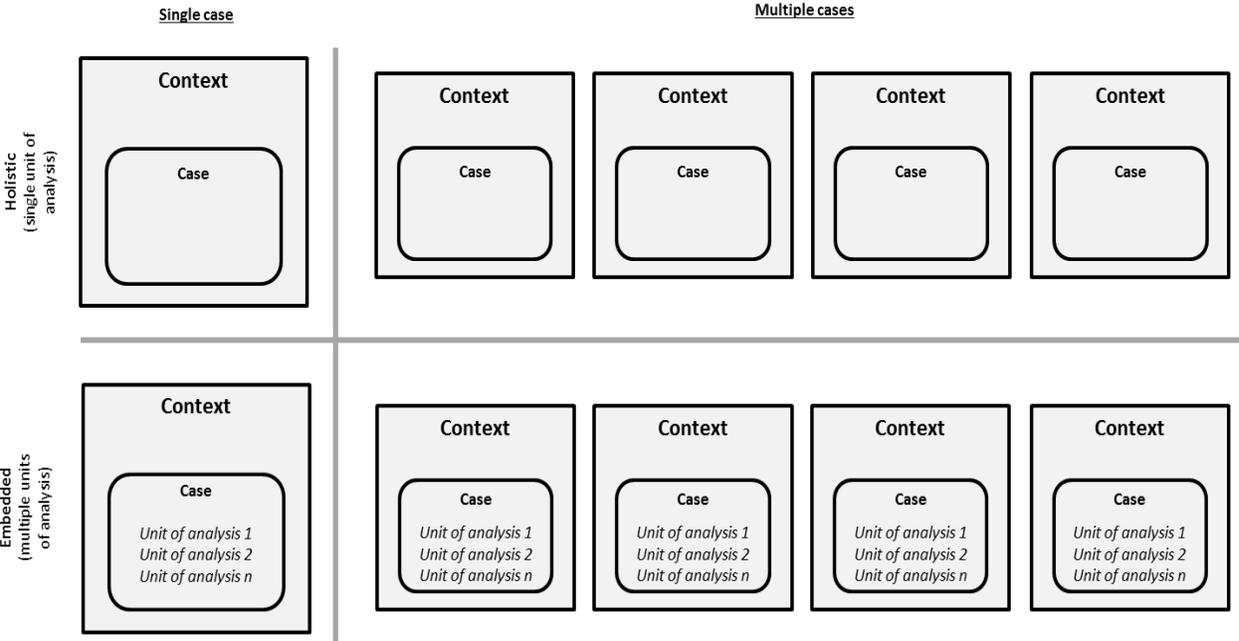
Figure 11: Four Major Case Study Design Options (adapted from Yin 1994)

A holistic single case study seeks to understand and analyze a particular phenomenon based on a single case unit of evidence, whereas a holistic multiple case study seeks to comprehend a

phenomenon by contrasting and comparing cases (ibid). An embedded single case study is based on single case evidence, but embedded design enables to use several units of analysis to draw an overall conclusion on the single case level, while in an embedded multiple case study evidence is drawn from multiple cases and from multiple units of analysis (ibid). A multiple case study is often considered to provide stronger evidence, being "more compelling or robust", however the resources needed are also often much greater compared to single case studies (ibid).

For this study an embedded multiple case study is conducted, as the conflict phenomenon and the management related to it is approached from various angles. The design of the case study follows the principles set by Yin (1994) and the design is depicted in Figure 10.
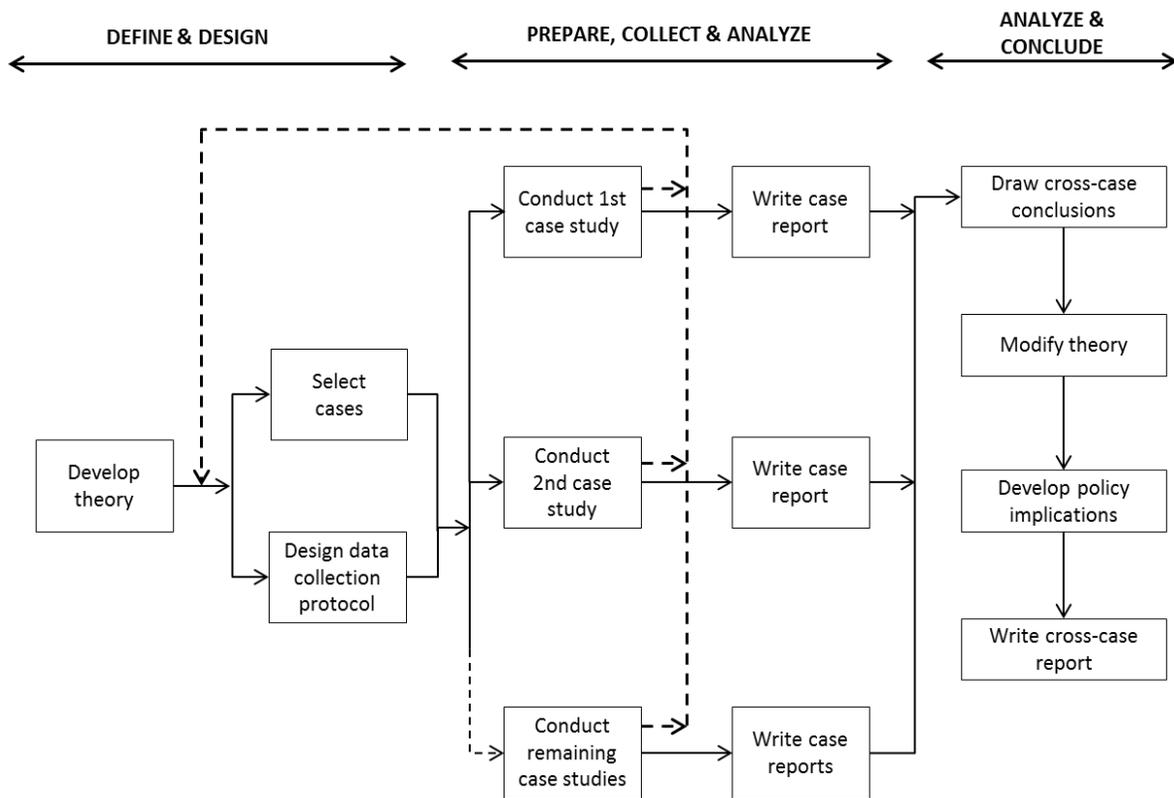
Figure 12: Case Study Method (Yin 1994, 49)

First, after identifying the research objectives and questions, meaningful units of analysis are determined and introduced. A theoretical framework is then built by collecting data from multiple sources of evidence. Instead of utilizing a purely deductive strategy, in which theory is tested and

either confirmed or discarded, elements of abductive logic (Dubois & Gadde 2002) are partly used. The central idea is that the theory from prior research, the theoretical framework constructed and the initial research questions guide the research, however they are subject to modification during the empirical phase, much as in inductive research (ibid.). However, in opposition to pure inductive research, the theory is explored and analyzed before conducting the empirical phase of the study.

3.2.2. Data collection

Central for the research is that the collected empirical material is suitable for answering the research questions (Eriksson & Kovalainen 2008). Generally, various sources and methods of data collection are employed when utilizing a case study method. In order to enhance construct validity, triangulation of data and evidence are used to establish a chain of evidence (Yin 1994, 33-35).

Interviews

Using interviews is a suitable method as it allows the generation of deep and broad information about the subject and as Yin (1994, 84) states, interviews are often the most important source of information to a case study. For this study, data was collected through semi-structured face-to-face interviews with experts of multichannel retailing. The interviewees were selected based on their experience in working in job assignments and projects, which aim for the integration of physical and online sales channels. Interviews were conducted both with industry consultants and with representatives of retailers. Consultants were selected on the base that they have extensive experience in the retail industry and have been working with retailers in projects aiming for further integration. Whereas representatives from retailers were selected based on the criteria that the organizations that they are employed by have started as traditional retailers with an extensive physical store network that are now supported by an online channel.

During the interviews, the interviewees were asked to elaborate on the main challenges and benefits of multichannel retailing and the integration of sales channels. After this the sources of channel conflict were discussed in further detail and the interviewees were asked to elaborate on mechanisms how the collaboration between the physical and digital channels have been supported.

In the end, the interviewees were asked to elaborate on their vision on the future development of multichannel retailing. The frame of themes used for the interviews can be found in the appendices.

While conducting the research 22 experts on multichannel retail were approached, and in total 9 experts have been interviewed. Potential interviewees were approached through e-mail during the period of January to March 2014. 15 experts were reached, out of which 6 turned down the interview. The reason for turning down the interview was always the lack of time. Due to time constraints and difficulties in scheduling a time for the interview, one of the interviews was conducted through the exchange of questions and answers via email.

Table 2: Summary of interviews

Date	Name of Interviewee	Position, company	Area of expertise	Location, duration
31.01.2014	**Heli Tiainen**	Senior Consultant - Strategy and Transformation at *IBM*	Multichannel operating models	Helsinki, 70 min
05.02.2014	**Sampsa Korhonen**	Partner – Global Business Services at *IBM*	Retail dynamics & multichannel strategies	Helsinki, 45 min
06.02.2014	**Anssi Pakkanen**	Client Executive at *IBM*	Multichannel expertise	Helsinki, 45 min
26.02.2014	**Kaisa Järvilehto**	E-Com Manager Finland at *Stadium Oy*	E-commerce operations & multichannel expertise	Espoo, 45 min
11.03.2014	**Mika Kakko**	Director of eCommerce, NetAnttila.com, Kodin1.com & Citymarket.fi at *Kesko*	Retail dynamics & multichannel strategies	Helsinki, 50 min
03.03.2014	**Mervi Jäntti**	Sales and Marketing Director at *Suomalainen Kirjakauppa Oy*	Retail dynamics & multichannel strategies	Conducted via e-mail
20.03.2014	**Ilkka Brander**	Managing Director and Vice President at *SOK S-Verkkopalvelut Oy (S-Group)*	Retail dynamics & multichannel strategies	Helsinki, 60 min
21.03.2014	**Marika Jirout**	Marketing and Communications Manager Finland at *Clas Ohlson*	Retail dynamics & multichannel expertise	Helsinki, 65 min
21.03.2014	**Deneb Pettersson**	eCom Manager Finland at *Clas Ohlson*	E-commerce operations & multichannel expertise	Helsinki, 65 min

Documents

Annual reports and corporate communications documents of the interviewed companies were examined to aid understanding of the current situation and future ambitions of interviewed retailers. Also both physical stores and e-commerce channels were visited in order to prepare for the interviews and learn about the existing level of integration of the retailers' online and physical channels.

3.3. Analysis of the empirical data

Unlike the analysis of quantitative data, the analysis of qualitative data is not subject to fixed formulas (Yin 1994, 102). Instead it is very much dependent upon the researcher's style and thorough assessment as well as adequate use of evidence and careful evaluation of alternative interpretations (Yin 1994, 102-103). In order to support the systematic analysis of the collected data as well as to support the data triangulation the analysis technique of constant comparison is utilized.

Constant comparison is rooted in the principles of Grounded Theory (Glaser & Strauss 1967) and is used to break down the material being analyzed into fragments as well as codify it according to emerging themes. In practice, the transcribed interviews are compared with each other in the analysis process, with the aim of searching for similarities and differences between them (Eriksson & Kovalainen 2008, 159). The constant comparison is implemented in this study according to the principles of Strauss and Corbin (1998). First the interviews were recorded upon the consent of the interviewees and then transcribed. The transcribed content that emerged from the interviews was then manually decomposed and organized based on different themes, treating each interviewed person separately. Excel spreadsheets were utilized for the manual thematic coding. Following the principles of axial coding, the results were then summarized and the themes that emerged were combined into a more abstract form (ibid).

3.4. Quality of research

Validity and reliability have commonly been used to establish the quality of empirical social research. Even though these concepts are often connected to quantitative research, they are also relevant to case studies (Yin 1994, 32). *Construct validity* is related to establishing correct operational measures for the concepts being measured and this is especially problematic for case study research, as "subjective" judgments are often used to collect the data (Yin 1994, 33-35). There are, however tactics to increase construct validity and in order to do that in this study, multiple sources of evidence were utilized and triangulation of data and evidence was used to establish a chain of evidence (ibid). *External validity,* referring to, can the findings be generalized beyond the immediate case study at hand, is essentially related to the research design (Yin 1994, 35). External validity has been a major barrier in executing case studies, because no set of cases, no matter how large, is likely to enable the generalization from one case to another (Yin 1994, 36-37). Instead of generalization to other case studies, generalization of findings should be done to "theory" (ibid). The external validity in this study is enhanced by the use of theoretical frameworks presented in the literature review, from which theories have been drawn from enabling the study to achieve generalizability to theory. *Internal validity* of the case study design was strengthened by the utilization of thematic coding, pattern matching and explanation building during the analysis of the data (Yin 1994, 33-35).

Reliability on the other hand is related to demonstrating that the operations of a study, such as data collection are repeatable with the same results (Yin 1994, 33). Reliability in this study is established in the fact that the findings are supported by previous studies, while the findings that differed from existing research can be logically explained. It is, however, evident that the phenomenon of intra-organizational channel conflict and the management of it require further research and the use of various research methods for it to gain even more reliability.

3.5. Research ethics

Scientific research questions, practices and processes have ethical aspects that need to be taken into consideration when planning and conducting a study (Eriksson & Kovalainen 2008, 63).

However, research ethics are rarely discussed in relation to business research (ibid.). This part aims to discuss how the collection of empirical data for this study followed research ethical principles.

According to Eriksson and Kovalainen (2008, 64-65) important dimensions in regard to research ethics are ones related to the relationships between the researcher and participants. These dimensions include voluntary participation, informed consent, confidentiality and anonymity when asked for. Several steps were taken in order to comply with these ethical issues. First, all participants were voluntary and wanted to contribute to the study. The research topic and motivation for the researched derived from a personal strong interest towards the area of multichannel retailing and no sponsor was included in the process.

Informed consent was achieved by disclosing the research topic in depth, if asked for, to the participants before final consent to participate. All information gathered during the interviews was handled with confidentiality and all participants were given the possibility to remain anonymous in the final report if it was desired.

4. FINDINGS

In the following section, the findings of the research will be presented. First the current dynamics of multichannel operations identified by the interviewees will be outlined, as it will serve as the basis for understanding the findings related to the framework and it may help in understanding some of the uniformities and differences between the experts' responses. After this the findings related to the sources of multichannel conflict as well as management of multichannel conflict will be presented. In this section, the research model is utilized as the base and guideline for structuring the findings.

4.1. Current dynamics in multichannel retailing

Changing consumer behavior and preferences are the clear main drivers for the change in retail organizations and all other issues are perceived secondary by the interviewees. Unlike the forerunners 10-20 years ago who pursued multichannel arrangements with the desire to reduce costs, increase market share, compete with pure e-commerce companies and achieve synergies, going multichannel has simply become a must in the eyes of the interviewed experts, and traditional retail companies are often in reaction mode instead of leading the change.

Overall, all interviewees agreed that the integration of the online and physical store channels is inevitable. However, the multichannel retailing business landscape is rather fragmented and interviewees were of the opinion that we are going to witness an increased differentiation between the business models of general merchandise retailers that used to previously operate with similar offline approaches and operations. This ever more fragmented competitive landscape is simply a result of the vast amount of possibilities for business and operating models that arise as the significance of the online channel grows. In addition, the achieved level of integration differs substantially between different retailers. Whilst some are starting to leverage cross-channel operations and collaboration, some are still more focused in aligning the fundamentals. This maturity of multichannel operations was found to have an effect on what is causing conflict in the organizations.

4.1.1. Major challenges

Very important for this study was to identify whether intra-organizational channel conflict is hindering the integration of the physical and online channels in retailer companies. Therefore, interviewees were asked to elaborate on their views on the most significant challenges of integrating the online and physical channels. The most significant challenges identified by prior research were summarized by Chatterjee (2010) as being the costs of integration, channel conflict and strategic issues. The opinions of the interviewees were in line with the findings of prior research, but there were clear differences in how the significance of the challenges was viewed by the interviewees.

Costs and high investments were identified by a few of them, and they clearly brought up the fact that the traditional brick-and-mortar retailing has required heavy investments in sales locations, assortments, warehouses and logistics that in the end only serve the traditional operating model. This demands the reconfiguring of these assets and new investments in order to transform them to be suitable for a multichannel approach.

The heaviest emphasis was placed on designing the business model. This was approached from various directions. While others saw that it was simply the case of testing and playing with unfamiliar models, other saw it as a lack of expertise and challenge in shifting the mindset from a single-channel approach to a multichannel approach. Two of the interviewees were even very blunt in stating that probably one of the most critical hindrances is the lack of desire and understanding of the leadership team to initiate and drive major changes. However, the message was in total similar: the designing of the business and operating model is the main challenge. One such opinion is illustrated in the following quote:

> *"Currently new channels are only glued on top of the old one, because companies do not want to risk compromising the current concept. Thus aging business models are protected while new should be created."* (Interviewee A)

Central for the significance and justification of this study was that most of the interviewees also identified the issue of arising conflict caused by the integration as one of the major challenges and barriers to development. The term conflict was initially used by many as a broad term describing

the controversy that the integration evokes between the members and functions of the different channels. However, as the following quotes demonstrate the way the interviewees understood conflict was very much in line with the definition of channel conflict used in this study:

> *"Within the company there are two sales channels competing for customers, and this easily causes friction and conflict, especially if the goals and metrics do not adequately support comprehensive thinking."* (Interviewee B)

> *"On top of the issue of costs and know-how the question about conflict arises. In other words, for instance do we have the same pricing in the online store as in the brick-and-mortar stores and what types of return policies are in place."* (Interviewee C)

This shared view acts as good reasoning to proceed with the study and continue to examine both the sources of conflict as well as the activities that can be undertaken to control it.

4.2. Sources of intra-organizational channel conflict in multichannel retail systems

As indicated, in order to understand the management of intra-organizational channel conflict, it is central to identify which organizational issues and operations have the tendency to create conflict. The assumption was that certain issues and operational areas can be identified as clearly being sources of the intra-organizational channel conflict. Using the model constructed based on the findings of prior literature, it became evident from the interviews that there are several issues that cause conflict between the channels, but the impact of them differ substantially in different organizations and different stages of multichannel development. The interviewees also directly linked some management initiatives and mechanisms as being effective in controlling certain sources of conflict. First in this section, the views and opinions concerning the issues causing channel conflict will be introduced, after which possible direct management activities to control them are elaborated upon. To conclude, general findings related to the origins of conflict will be presented.

4.2.1. Fear of cannibalism

The interviewees were unanimous in their views that some confrontation between channels exists which in the beginning arises from fear of customers simply shifting from an existing channel to another one. The interviewees perceived this effect, referred to as fear of cannibalism, as being very natural to all multichannel retail organizations. According to the experts, the problem caused by this source of conflict, is that it might inhibit the general desire to undertake initiatives to strengthen multichannel capabilities. The following quote effectively summarizes the general view:

> *"Fear of cannibalism exists of course. Especially at the store level. Sales over the online channel is often perceived as being away from the sales of the store, putting jobs and salaries on the store level at risk."* (Interviewee D)

While some of the interviewees stated that the conflict caused by fear of cannibalism had been minimized by using management mechanisms, such as strong corporate communication and reward sharing, some were of the opinion that, at the moment, not much could be done to decrease the fears. Cases in which the interviews perceived that the integration process was well on its way and in which the individual stores followed a clear concept with little independency and power on operational decision-making, the fear of cannibalism was seen as an overcome problem. The conflict caused by the fear of cannibalism was also seen to be related to the growth of sales in the alternative channels. In cases in which sales in both of the channels were growing the effect of channel conflict was seen rather minor. However, when the sales in the physical stores were declining, the effect of the channel conflict caused by fear of cannibalism was a lot more significant. This was often perceived to be the case with e.g. large department stores. The quotes below illustrate the views of the experts:

> *"Fear of cannibalism still exists in our organization, but because our operations are based on a strong unified concept in which no store is allowed to independently pursue major configurations, the challenge is not of major scale."* (Interviewee E)

> *"In practice, we do not have a model or operating mechanisms at the moment to reduce and manage the fear of cannibalism, but of course an effective solution for the problem would be to revise the manner in which the salaries in the stores are composed."* (Interviewee D)

> *"In the beginning when the online store was opened the staff in the stores questioned its presence and had strong fears of its impact, but now they are even willing to promote the online channel and*

are therefore no longer afraid of losing the customer. […] The key to success has been strong communication directed to the store personnel.” (Interviewee F)

The findings from the interviews were in line with previous research that had also identified the fear of cannibalism as a major source of intra-organizational conflict (e.g. Montoya-Weiss et al. 2003; Steinfield 2004; Gulati & Garino 2000). As illustrated in the quotes it became evident that there exists clear verifiable management mechanisms that can be used to decrease the effect of fear of cannibalism, them being clear communication and education targeted to the work force as well as reward sharing between channels. The interviewees emphasized especially the reward sharing from the online channel operations to the physical store channel.

4.2.2.   Pricing and promotions

“Pricing is a complicated and interesting issue, and when we think about multichannel systems, the problem escalates when individual stores possess a lot of pricing power.” (Interviewee G)

“Pricing is especially important in Finland and the Nordics, as the pricing is often substantially higher than in Central Europe and North America. The importance of this is emphasized because during an online transaction we might be competing with 15 foreign competitors offering the exactly same product.” (Interviewee E)

The above quotes clearly summarize the general view of the interviewees, being that pricing and promotions has the potential of being a major source of conflict. In the literature review, it was identified that inconsistencies in prices and promotions between channels tend to cause confusion among customer, leading to dissatisfaction (Zhang et al. 2010). This is also why retailers are faced with a decision on either harmonizing the pricing in order to reduce conflict and consumer confusion or on the other hand pursuing different pricing strategies in order to flexibly maximize profits in individual channels (Chatterjee 2010). This choice between the two options was very much in line with the findings from the interviews. On the one side, some experts were of the opinion that in order to achieve maximum benefits from both channels the pricing needs to vary. In such cases the view was that conflict is inevitable in pricing issues. The following quotes effectively demonstrate this view:

“Ongoing debate is rising about prices and promotions, and whether they should be consistent in both channels. From the customer's point of view, of course, it would nice if the prices are the same, but then again if we think about profitability, consistent prices cannot be provided. Certain

products are subject to special promotions and they are often dependent on the channel."
(Interviewee D)

"Pricing online is lower than in the physical stores, however it is important that the price difference does not to grow too large." (Interviewee B)

"Due to differing prices within one country and to legislative reasons, the online store uses the most expensive store price of each country. This means that individual physical stores may offer a discount on products, but the online store cannot decrease its price under the highest price in the country's stores. [...]The problem is that if a customer orders a product online for the price of 100 €, but decides to go pick it up from the store and walks past the shelf where the price is 80 €, he/she will wish to return the product purchased online and buy it off the shelf. This results in complex operations at the current supply chain structure. This demonstrates the strong pricing dilemma. Stores want to price according to the local market and neighboring competitors, rather than having a general price that comes given centrally." (Interviewee G)

"The same problem applies to promotions. Take again (company X), where the online store has only been able to make discount offers on days when all of the physical stores have been closed and avoid pricing conflict with physical stores by using a "time constricted offer" tactic."
(Interviewee G)

An opposite view on the other hand exists, when the business model states that the role of the online store is simply to support physical stores. In such cases, the interviewees stated the following:

"Because we do not want the channels competing with each other we try to keep the same pricing strategy in all channels. This will also help in avoiding a conflict of interest to the customer whether he/she is a better customer if he/she goes to the online store instead of a physical store. However, pricing does differentiate sometimes when we do campaigns focused on the online channel. All in all, we have overcome conflict arising from pricing." (Interviewee E)

"The channels do not compete with each other, and basically we price all our products similarly in all channels. Officially, the same price can be found in all channels. However, pricing strategies differ substantially, e.g. while we have uniformed pricing, a competitor sells products online at low prices, but with the help of high freight charges they lure customers to pick the products up from the store, where they sell the more expensive products, accessories and services with high margins." (Interviewee H)

It becomes very evident, that pricing and promotions are in many cases a source of intra-organizational channel conflict. It seems that as Chatterjee (2010) indicated in his study, upholding uniform pricing helps to decrease intra-organizational channel conflict, however it limits a retailer's capability to flexibly optimize pricing in different channels. The interviewees pointed

out that of course mechanisms such as reward sharing can be used to manage the level of conflict, but ultimately it comes down to a clear high level decision, as the following quote summarizes:

> *"Pricing is important, but pricing decisions do not belong on the operational level. Pricing will lead to some level of conflict in any case, but when pricing decisions are supported by a clearly defined business model, the conflict should not escalate."* (Interviewee I)

4.2.3. Organizational structure

Interviewees were of agreement that the organizational structure is one of the most critical components in order to achieve effective integration of the channels, and this view is strongly supported by the findings from prior research (e.g. National Retail Federation & shop.org 2013; Zhang et al. 2010; Gulati & Garino 2000). As there is very little understanding and consensus on the ideal organizational structure, companies are faced by the dilemma on how and to what extent should the organizations of different channels be integrated. The aim of this study is not, however, to research the most optimal organizational structure, but rather find out if there are clear issues in the composition of organizational structures that cause conflict and whether there are ways to control the conflict that arises.

The interviewees provided a similar view as prior research on why companies in many cases experience conflict and lack of collaboration caused by organizational structures, summarized in the following quote:

> *"Traditionally, multichannel organizations start off by having the online store as a separate additional feature as they recognize that online presence is important, and at this stage the online operations form an own organization. This creates e-commerce teams that are disconnected from the rest of the organization."* (Interviewee G)

A matrix organization structure was perceived by most as being the most efficient way of decreasing conflict. However, it became evident that the organizational model on its own does not solve problems and decrease the level of conflict:

> *"Organizational structures of course have the potential to escalate conflict. We have a matrix organization structure in place, with which we try to support a multichannel mindset, but it is easier said than done. The way sales are composed at the moment has very high value for decision making. Since the majority of sales come from brick-and-mortar stores, it automatically has a*

larger role than the online store and therefore the mechanisms of the brick-and-mortar business guide operations strongly. From time to time this causes challenges to the online store." (Interviewee D)

"We have a separate subsidiary that is in charge of developing multichannel and digital operations [...], but to simplify it, there is no difference between this and a matrix organizational model . In my opinion, it is about looking at the life cycle of operations. A full life cycle needs different organizational models. If you want to accelerate development in a certain area, it might be better to provide greater focus through organizational silos, whereas when you aim for generic benefits and want to eliminate internal boundaries, then you might want to force the organization into a matrix model." (Interviewee I)

Prior research clearly stated that there is no one-size-fits-all solution for organizing a multichannel retail organization (Gulati & Garino 2000). However, it was also stated that a silo managerial approach seems to escalate channel conflict (Zhang et al. 2010). This view was shared by many of the interviewees as becomes apparent in the following quotes:

"We used to have much more organizational silos, but during the integration process we have switched to a matrix organization structure. [...] Proactivity and the desire to be aware of what is happening in the rest of the organization is an important element (of multichannel operations). Therefore we cannot work in silos in logistics, marketing and e-commerce, but rather barriers need to be constantly broken down. For us it has not been a problem, because collaboration comes automatically, as we collaborate widely with different functions." (Interviewee F)

"I strongly believe that if we would have clear organizational silos and an authoritarian management system, the support of the whole organization for the integration would have certainly been much more difficult to achieve." (Interviewee H)

It also became evident that in addition to the structure, responsibilities need to be clearly defined within organizations.

"The organizational structure, be it of a company or of a unit, should be seen more as a tool to implement the strategy. It is important to identify which tool is most suitable at different stages. Management should therefore, be bolder at looking at which organizational structure suits which stage the best." (Interviewee I)

"When I first read the organizational chart I did not understand how the responsibilities were divided, and it became evident that no one in the organization had full understanding on the matter. This is why it is very difficult to reach an agreement on matters such as digital marketing as it is unclear to who it belongs to and who gets to decide. Everyone thinks that it is a bit of their responsibility." (Interviewee G)

If unsuitably designed for the current strategic alignments, organizational structures cause conflict in organizations. A clear message was that there is no direct management mechanism identified that could decrease the level of conflict caused by organizational structures. Rather companies need to make sure that their organization is designed in a way that it supports the prevailing strategic alignments and operating model in place. It was also agreed upon by the interviewees that the organizational structure is in all cases continuously under questioning and reconfiguring.

4.2.4. Data collection and usage

Based on the understanding acquired from the interviews, a lot of work has already been done by all retailers to update systems and increase interoperability. However, despite all the efforts already undertaken the fact remains that a major challenge and cause of channel conflict still is the lack of interoperability between the legacy store IT systems and e-commerce systems. The conflict is caused directly by the differing logic behind operations, but also by the fact that it is very hard to derive data out of incompatible systems to measure cross-channel effects. In addition, the fragmentation of data inflicts challenges for deriving valuable information, as the following quote explains:

> *"Information and data is only available from customers who are part of the loyalty program and even then the data is channel centric. All customer information is therefore highly fragmented and analytics possibilities are very limited. Analytics require immense amounts of manual work, for example, if you want to make a targeted marketing campaign."* (Interviewee G)

While loyalty programs offer possibilities to track customers in both the channels and share information between channels this opportunity is not utilized by all of the retailers, while some embrace the possibilities and have very high ambitions regarding analytics capabilities and personalization of the customer experience.

> *"Perhaps the most significant challenge in all online operations is to prioritize what information to use and follow. Because we have so much information we very easily keep track of wrong and insignificant things."* (Interviewee E)

> *"Today, as people have become increasingly individualistic, it is better that they are approached based on their personal interests rather than trying to sell everything to everyone. As a result, technological know-how has an even more significant role in online operations, and in order to increase understanding on your customers you need more analytics skills. Progress in this field has*

been achieved and the systems have been updated in order to achieve competitive advantage through this." (Interviewee D)

"A loyalty program is in place and technically we could track cross-channels activities, but so far we have not done it and there has been no discussions on us doing it in the near future. Maybe in the future we could keep track of how much each customer shops online compared to the physical store and analyze for example, whether the products bought in different channels differ substantially. We already have access to such data, but we do not do continuous monitoring." (Interviewee E)

These quotes effectively demonstrate that in addition of having different approaches to utilizing data, companies also have difficulties caused by the non-uniformity of it. Many of the interviewees perceived that the only management mechanism offered to control and decrease the conflict caused by this was to continue on increasing the interoperability of systems. However, it also became evident from one case especially, that the sharing of data and information from the online to the physical channel can be perceived as a significant measure to decrease channel conflict.

Based on the findings, data collection and usage could be identified to be causing conflict between the online and offline channel, however a more appropriate and self-explanatory term for the source of conflict could be "Systems, data and information sharing".

4.2.5.   Competing distribution systems

All interviewees agreed that the integration of channels require reconfiguration of regulations and process in the logistics operations. Most acknowledged that totally free and efficient movement of products and information between channels has not been achieved and will be hard to achieve in the near future. In almost all cases the pick-up and return of products ordered in the online store could be done through brick-and-mortar stores and the online stores already often possessed the capability to indicate availability of products in the physical stores. Therefore, steps have been taken towards the integration, but many capabilities have still not been achieved:

"At the moment, e.g. in a case where a product is out of stock in a physical store, one cannot make orders from the online store straight from the physical stores. In such cases, there is the risk that a customer is lost to competing online stores when they leave the physical store. This problem has been discussed, but at the time being, we have found no solution to the dilemma." (Interviewee E)

"At the moment, the items purchased online that are returned to brick-and-mortar stores are also returned to the central warehouse. However, the click-and-collect model is under development so

that the customer could quickly, even during the same day come and get the product purchased online from our store, but there is no operating model for such a capability yet." (Interviewee D)

The major point made by the interviewees was that the differing distribution systems are not a source of conflict per se, but rather the interoperability of systems, especially the order management systems. When interoperability of the systems is achieved, the reconfigurations done in the distribution will actually enable the progress of the integration of the channels and can potentially decrease the overall channel conflict. Therefore competing distribution systems can be ruled out as being a source of conflict on its own, since the conflict seems to be caused by the lack of interoperability of systems.

4.2.6.   Skills and knowledge

Based on the literature review the assumption was that skills and knowledge possessed by the members of the organization causes conflict. The reasons for this was based on two separate dimensions: 1) lack of executive level expertise and knowledge of managing the new retailing environment and 2) lack of functional mastery regarding multichannel operations. This awoke many opinions that differed substantially. While some interviewees identified executive level knowledge and understanding as hindering the integration and increasing the prospect for conflict, some were of a very different view stating that executives have mostly been consistent on the message on what needs to change. The latter opinion was that the challenge has rather been in the fact that the members of the organization in general lack understanding on how to execute the strategy. These fully contradicting views actually supported the view of skills and knowledge triggering conflict between different levels of the organization. All interviewees also acknowledged that integration requires new type of knowledge and competence and a majority of them argued that internal competency of how to design the integration and link the operations of different channels tighter together is missing from most organizations.

Additionally it was proposed by the interviewees that the source of conflict can be caused by the lack of willingness to acknowledge that the change is needed. This was identified as a very early stage source of conflict. Some of the interviewees made it clear that they had overcome this dilemma and that it was achieved by clear corporate communication and development of skills and

expertise in the organization through education. However because this study does not examine conflict caused by any certain development or maturity stage of the integration, the single channel mindset is identified as a potential source of conflict and named "change".

> *"Technology helps in becoming multichannel, but the change in mindset is the most crucial issue in achieving it."* (Interviewee D)

4.2.7. Compensation schemes

Interviewees identified compensation schemes as primarily being a management mechanism. It became evident in the discussions that compensations schemes can be roughly divided into two categories: channel-level reward sharing, in which profits are allocated from the online channel to the brick-and-mortar channel and individual employee level compensation schemes that directly affect salary levels.

Even though compensation schemes were identified primarily as management mechanisms, it also became evident that if inadequately designed or totally disregarded they might become sources of conflict as one of the interviewees adequately phrased:

> *"Confrontation between the channels is evident as the integration is proceeding. This brings us to the high-level compensation and especially to how will the profits from online store be distributed in the future. If the group will collect all the profits, what is the interest of the traditional stores to support the integration? It needs to be clearly thought through how to secure the interests and position of the traditional stores."* (Interviewee G)

Therefore, in addition to being a mechanism to control channel conflict, compensation schemes can also be identified as a source of conflict. However a better way to rephrase it would be "reward sharing". The compensation schemes were found to be very closely linked to the business model under which retailers operate.

4.2.8. Performance metrics

Similar to compensation schemes, performance metrics were identified as primarily being a management tool to control the conflict arising, however if inadequately designed they could cause division and conflict between the online and offline channels. Interviewees linked performance

metrics closely to changing the mindset of members of the organization. Basically as measurement criteria and evaluation guide the work of people, it comes down to the question: are separate channels independent and only measured independently or are they a part of a larger multichannel system where the actions in one channel effect the whole system? The potential lack of desire and need to co-operate is why performance metrics can also be perceived as a source of conflict.

4.2.9.   Assortment

A dimension left unexamined in the literature review and original research model was the tensions and conflict caused by differing assortment in the channels. During the interviews it became evident that traditionally similar assortments have been held in the online and physical stores; or in many cases the assortment in the physical stores has been wider than the one in the online store. There was a clear view that this needs to change if maximum potential is desired out of multichannel arrangements. Most interviewees saw that due to the strong brand and existing customer base, the online channel should actually offer a much wider assortment than the physical stores and be treated as a platform to offer customers an even wider range of goods. All products should no longer be distributed to all stores or held at central distribution centers, but rather integration with wholesale partners systems should be done, so that they would hold the inventory of niche products that could easily be purchased through the online stores of the retailers. The following quotes illustrate what was stated by the interviewees:

> *"There has recently become difference in assortments between channels, because the range of products in stores varies depending on the size. The online channel enables even small shops to provide the whole range. [...] The online channel can be used to do experiments and niche shopping."* (Interviewee E)

> *"By expanding the assortment you are able to stay competitive. We must be able to sell niche products online without distributing them to all the stores, and this requires wholesale dealer integrations, meaning that it should function as a delivery service, in which we offer an online trade platform for a few large wholesale dealers with vast selections of goods. We sell the product, but it can be quickly delivered to the customer. After all, customers do not know where the product comes from, but in terms of profitability for us it has a big impact."* (Interviewee D)

Some experts viewed that especially the current manner of doing business is causing conflict, as the online store does not have the capabilities and tools to achieve maximum potential. When reviewing if prior theory on channel conflict supported this view, it was noticed that actually Webb

and Didow (1997) also perceived the range of products as being a part of the external domain similarity, an antecedent of channel conflict. Due to these findings assortment can also be perceived as a potential source of conflict. Regarding the management of channel conflict linked to assortment issues, the interviewees identified that decisions on the matter come down to the business model, however decisions can be supported by alignments on certain specializations of the channels.

4.2.10. General findings on sources of conflict

Based on prior findings and the interviews conducted nine potential significant sources of conflict were identified. The sources of channel conflict are closely interconnected with each other as well as all operations of the organizations. Trying to control channel conflict caused by one source can easily lead to triggering conflict somewhere else in the organization. The findings indicate that the effect of the different sources of conflict is very dependent on organizational characteristics such as size and culture, the business model as well as especially the maturity stage of the multichannel operations.

Especially conflict caused by *fear of cannibalism* and *change* can be identified to have a strong effect when the online channel is launched and in the early phases of the integration. One could even infer that if these are still major sources of conflict the retailers have not been able to successfully build the fundamental understanding within their organizations on why integration is necessary, which is central for achieving acceptance for the change. Internal skills and knowledge are issues that organizations can strongly affect through education and targeted recruiting. *Interoperability of systems and uniformity of data* are something that only seem to be achievable through investing in the IT landscape and continuous reconfiguration business processes, however it is an on-going cycle as new systems and processes are constantly required to support the developing operations. Whereas *pricing and promotions, assortment, performance metrics* and *compensation schemes* are very tightly connected to the business model and finding a balance with them in a manner that best supports a harmonized system is crucial.
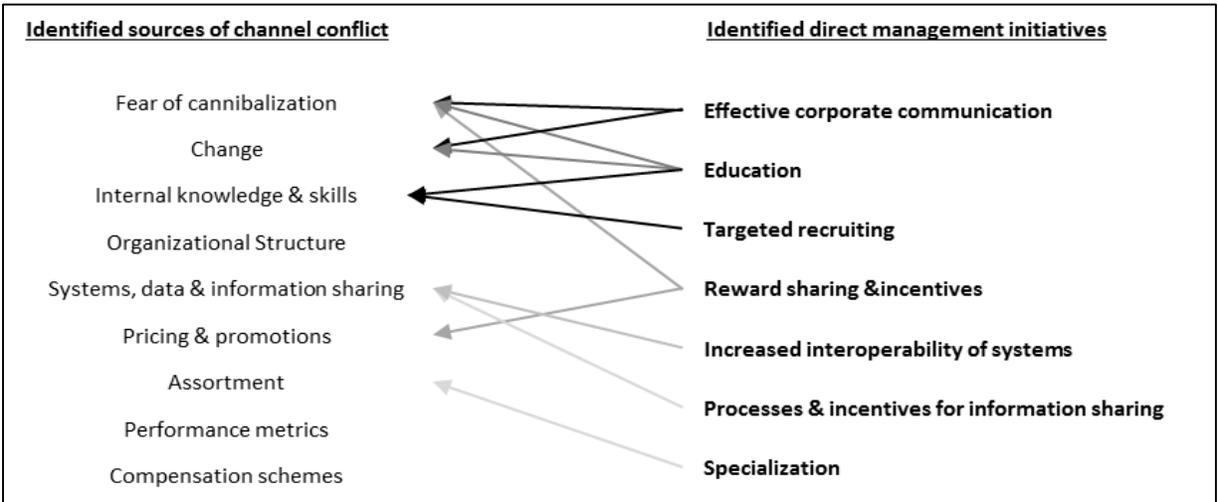
Figure 13: Summary of Identified Sources of Channel Conflict as well as Direct Management Initiatives Adequate to Control the Conflict

4.3. Management of intra-organizational channel conflict

In the previous section findings regarding what organizational issues trigger intra-organizational channel conflict were processed. The findings also revealed some direct management tools as being effective to control the channel conflict triggered. This section will introduce the findings of channel conflict management in total and reflect the findings to the original research model.

4.3.1. Executive level alignments

The general opinion of the interviewees was that some level of conflict between the online and offline is inevitable and the level of conflict is dependent on organizational characteristics, such as structure, size and culture. It was also clearly stated that primarily the management of conflict should be done with a clearly aligned strategy, business model, operating model as well as with a strong leadership agenda. The general message from the interviewees was that the original model does not incorporate these crucial elements.

However, it was acknowledged that in most cases the high-level alignments in the strategy, business model and operating model leave room for channel conflict to arise. In such cases distinct

mechanisms need to be developed in order to control it. This view clearly comes evident in the following quote:

> *"Basically, even if you would have a good strategy and skilled leadership team, all these areas (research model) can cause channel conflict. The question is how strongly will the conflict emerge and how visible is the impact, if your strategy and leadership agenda are well aligned. [...] I recognize that often there is a good general understanding of the world around us and of individual forces effecting the shift (meaning in retailing), but the company is simply not yet ready for redirecting its strategy and leadership agenda."* (Interviewee I)

The interviewees also called for strong leadership and prioritization of multichannel capabilities and initiatives.

> *"In any case, through the strategy and the business model you can have a strong influence, but at the same time you will not achieve anything without extremely tough leadership. With tough leadership I do not mean that you issue orders, I mean that you do prioritizing, [...]. You might have to neutralize an existing significant strength in order to make room for another area, and in such decisions the business risk may be very high."* (Interviewee I)

With these findings, it becomes evident that high-level alignments and decisions have a major impact on intra-organizational channel conflict. However, it also became evident that conflict will arise despite all the efforts. Therefore, this study looks for generic tools used to control and manage the conflict. The matter of channel conflict management within an organization has been divided under three interventions according to the research model.

4.3.2. Goal alignment

Aligning goals between channels was perceived important by the interviewees, as they indicated that a clear message needs to be sent by the management to the organization on the aim to integrate and to find cross-channel merchandising possibilities. This was very much in line with the findings of the antecedents of intra-organizational channel conflict as well as the management activities for channel conflict (e.g. Webb & Didow 1997; Coughlan et al. 2006).

A central part of aligning goals is the measurement of activities (Min 2000, 375). Interviewees identified the need to develop cross-channel measurements, but also acknowledged that designing such measures has been a challenge. When effective cross-channel metrics have been designed,

they are needed to complement performance metrics, which were already identified earlier as a direct management tools as well as potential source of conflict. Most of the interviewees indicated that due to the differences in operating logics, separate channels and their support functions will most likely continue to be measured according to independent traits also in the future. However, that the inherent metrics used to examine members of separate channels need to be supported and combined with cross-channel generic metrics, such as overall customer satisfaction. This was supported by the idea that if you are only measured and evaluated on what you do in one function or one channel, what is your motivation to support the integration and cooperation between channels.

A factor not identified in the research model, but highlighted by the interviewees was the importance of corporate communication. Strong and clear communication on the goals and change undertaken is needed to prevent confusions and uncertainty within the organization. It can also be used to emphasize the indirect benefits that are achieved from the multichannel operations to increase the buy in from the members of the organization. A major indirect benefit identified by the interviewees was the enhanced customer service online for the customers of the offline channel.

According to Steinfield et al. (2002b) it is often critical for retailers to use the online channel as a tool to focus on enriching existing customer relationships rather than aiming for new customer segments. Even though in some of the identified cases the role of the online channel was simply to support the physical store channel, all questioned its effectiveness in controlling conflict. Several even brought up the fact that this would increase competition between the channels, as the different channels would primarily be forced to compete for the same pool of customers.

4.3.3. Explicit coordination and control

Regarding coordination and control, the increased interoperability of systems, specialization as well as information and reward sharing were already identified as direct and proven mechanisms to control channel conflict. These direct mechanisms together with additional initiatives also identified by interviewees will be elaborated upon below.

Processes and process work

In the enforcement of the strategy, the interviewees identified process work as being a key aspect. Process work had a primary and a secondary role in enabling the integration and controlling the conflict. Primarily business processes are needed to guide the operations and enable the operating model, since without reconfiguring and aligning the processes it is impossible to achieve multichannel operations to enable the integration. The secondary role that actually rises to equal importance was that process work is a crucial element in enabling and encouraging cooperation across channels. It was perceived central that people from all around the organization are engaged in reforming the process, because this forces people out of their silos. The engagement and making everyone participate increases the recognition and adoption of the new processes needed to achieve the new capabilities. All interviewees were unanimous in the view that cross-channel and cross-functional teams are needed to move the organization towards multichannel operations, shifting the mindset of people as well as decreasing the conflict within the organization. It also became evident that the process work is strongly related to the leadership agenda and leadership capabilities and certain capabilities need to clearly be prioritized by the managers in order to drive the process work so that it supports the strategic decisions done. The following quotes efficiently summarize what was stated:

> *"When designing processes one should not speak of who in the organization should take responsibility about the design. The role of process work is not to just to come up with the new model for operating, but the point is rather to involve people from all around the organization to discuss and agree. […] if people are not engaged in the work, they will not adopt the new practices."* (Interviewee G)

> *"There may be functions where processes are needed in order to force people to cooperate and to find common work, and this is a rather drastic measure. Then you may have functions that only need to be given the opportunity and they will find the smartest way to produce the service together with others. […] In practice, there may be situations in which you have to prioritize some issues over others to lift some of the capabilities to a desired level. This type of management challenge is encountered in particular in existing traditional organizations, because such a strong culture, established processes and embedded way of doing things are in place."* (Interviewee I)

Reward sharing and incentives

The interviewees identified reward sharing and incentives as powerful management activities to decrease conflict and reshape the behavior of members of different channels. It also became evident that this topic should be divided in two different categories to be evaluated separately.

The first category is reward sharing, which refers to high-level decisions on how to compensate physical stores for the profits that are earned in the online channel. The second category identified is incentives to enhance cross-channel sales, referring to compensation schemes built for individual employees. Such incentives could be designed e.g. for sales associates in physical stores, to motivate them to direct people in the stores to the online store in the situation where no suitable product is found in the physical store.

The views and current practices on both reward sharing and incentives differed substantially. It was evident that companies in which individual stores possess high power and independence, no clear decisions have been made and all possibilities are still only under consideration. In such cases, the experts acknowledged that these were issues that needed to be dealt with; however, as long as the business model and operating model were still going through major reconfigurations, the reward sharing and incentives were also only under observation. In many such cases it was also emphasized that this was not yet a major issue as the proportion of sales from the online stores remained rather low. However, a few experts were of the view that sales associates in physical stores need to be compensated for cross-channel sales and that technology will open possibilities for this in the future.

In cases where the stores operated under a clear concept with little power on deciding on store operations and in which the online channel is perceived as one additional store like all the rest, there were various approaches to compensation and reward sharing. Regarding incentives to individuals, the experts stated that in many cases, the main role of sales associates in physical stores is to deliver customer service and therefore very small if any commissions are offered according to individual sales. Regarding reward sharing between channels, the prevailing practices differed, as while some shared rewards from the online channel to the physical channel, others were of the view that this is not necessary as the aim is to simply promote the success of the whole

organization and therefore no reward sharing is needed between the channels. This highlights the very different approaches to coordination and control mechanisms even with companies operating under similar business models.

Cross-channel marketing

Most interviewees identified cross-channel marketing as an efficient tool in order to shift the mindset from a single channel system to a multichannel system and portray integration to both company internal stakeholders as well as customers. As the single channel mindset was identified as a source of conflict, cross-channel marketing can be identified as a potential tool to support the integration and control the conflict. Cross-channel marketing is one of the first multichannel initiatives undertaken by retailers when shifting to a multichannel system and interviewees were of the opinion that practically all retailers operating multiple sales channels already utilize it.

The challenge that often arises in cross-channel marketing is, however, the issue of budgets. Physical and online channels may have separate marketing budgets or in some cases, the group controls the online budget centrally while individual countries or geographic areas have their own budgets and this can cause confusion within the organization. This brings us back to the organizational structure and the importance of aligning it in a correct manner, because even cross-channel marketing activities have the potential of leading to conflicting interests if responsibilities and organizational structures are unclear. This again depicts that all the sources of conflict as well as potential management potential are closely interconnected and dependent of each other. The following quotes highlight the challenges caused by budgets in cross-channel marketing:

> *"Third parties have done research on what part of people who see the marketing material go to physical stores and what part to the online store, but it is extremely hard to generalize."*
> (Interviewee H)

> *"We have one comprehensive marketing budget, but of course it is divided between separate channels, however the use of it is not pre-defined and there are no specific binding restrictions. Because for example if we utilize search engine marketing it is very difficult to know which portion of the people who see it go to the physical stores and which portion to the online store. Thus, the budgets for separate channel area not bindingly earmarked, but instead they come from the same budget."* (Interviewee F)

Specialization of channels

The specialization of channels was primarily highlighted in the antecedents of channel conflict (Webb & Didow 1997; Coughlan et al. 2006) as they indicated that when the domains of channels in regard of services offered or functions performed become too similar, conflict is triggered. The interviewees also emphasized the need for specialization and optimization of operations in different channels, and identified it as a clear need in integrated systems. One of the interviewees even stated that if we leave technology out of consideration, the most significant challenge is that how can the company utilize the difference of the channels, in the manner that certain products and categories would even be channel specific based on their characteristics (Interviewee H). Many of the interviewees also identified the online channel as opening opportunities for the sales of niche products and growing the assortment offered without having to distribute risky products to all stores. Overall, specialization was identified as a requirement that was aimed for rather than a management activity to control channel conflict, however it was also stated that if specialization is done, it might be easier to justify why some of the business is moved from the physical stores to the online channel. Therefore, specialization can be perceived as a potential mechanism for controlling conflict.

4.3.4. Capability development

As identified, when integrating channels it is important that the organization changes its mindset towards being open to multichannel operations, instead of holding on to obsolete beliefs and ways of working. Skills development and especially education was identified as extremely powerful and effective in supporting the integration of channels as well as controlling conflict. An interviewee, who perceived that channel conflict had largely been overcome during the five years of hard work, outlined their key to success as follows:

> *"We continuously hold seminar and education days for store managers, utilize a lot of internal communication, hold general training sessions and help all members of the organization to understand what being a multichannel retailer means and what are the challenges as well as opportunities it entails."* (Interviewee F)

In smaller organizations it was clear that it was possible to target this education to the whole organization while in larger ones it was stated that it is most likely not necessary to train and

educate everyone, but rather concentrate on the ones that need to work in cross-channel operations. Also relating to the internal education some companies also brought up that when educating the employees they should also be empowered to discuss, criticize and bring forth their suggestions on how to improve the current system. Members of different channels should also be encouraged to highlight capabilities that they desire to achieve with the help from one other. The following quote highlights the need for education but also brings forth a second factor identified in the literature review, namely recruiting.

> *"Central in our success of controlling conflict and making a shift to operating multiple channels has been that we have a lot of internal training. [...] In addition to internal training and education, an important factor is recruiting. When hiring new people during the past four to five years we have aimed at building the capabilities that we desire as well as finding know-how that we did to even know we wanted and needed."* (Interviewee H)

All interviewees agreed that targeted recruiting is needed in order to bring in skills that the company was lacking. Some of the companies however saw that these recruitments should rather be done from employees in-house, as they also possess the understanding on the core business, while others stated that much more people should be brought in from outside the organization. It was emphasized by many interviewees that especially people with vision and skills in multichannel operating models were needed as their input could further the integration in the manner that benefits the organization as a whole, increasing satisfaction within the organization and therefore decreasing the potential of contradicting interest between members of different channels.

The third dimension that was recognized in the original model (Steinfield et al. 2002b) was the need of involving external partners in the development through partnerships and alliances. This should be done to fill in the gaps that are lacking from the company (ibid). This was perceived crucial by most interviewees; however, they called for a correct kind of balance between in-house capability development and use of partners. If too much was relied on external partners, it was seen as a statement to the organization that their capability to develop is undermined, and it posed the risk that in the long run external partners might have too much to say in the steering of the company. On the other hand, all perceived that simply relying on internal assets was not realistic, as no organization can be a top performer in all new lines of business and technology. However, even though seeking for partners and potentially forming alliances was indicated as being crucial

for successful multichannel operations, none of the interviewees acknowledged it as being an activity that would allow the coordination of intra-organizational channel conflict. Therefore, the intervention of capability development in the controlling of channel conflict was perceived to come down to two issues: wide-ranging education of employees and targeted recruiting of new skills to enhance capabilities and enable cooperation.

4.3.5. The effects of management interventions to manage channel conflict

It became evident that evaluating the effect of the channel conflict or measuring the benefit gained from managing and controlling is extremely hard. Aiming to quantify it, was perceived as practically impossible by the interviewees. Therefore, the assessment of the effect is based on subjective perceptions on how is the organization and its channels performing overall and how engaged and satisfied are the members of the organization.

5.   DISCUSSION AND CONCLUSIONS

This section of the thesis will summarize the central findings presented in the previous sections. Based on the findings an empirically reviewed framework will be introduced and insight on how the framework explains the underlying research questions and phenomenon will be provided. To conclude, the theoretical and managerial implications of the research will be presented along with the limitations and suggestions for further research.

5.1. Summary of findings

The focus of this research was to study the intra-organizational channel conflict phenomenon. The aim was to identify the most significant underlying factors triggering intra-organizational channel conflict when retailers pursue the integration of physical and online channels as well as provide insight on how retail organizations can respond to and manage the channel conflict triggered within the company. The findings are threefold. First, antecedents and nine significant sources of intra-organizational channel conflict were identified *(see empirically reviewed framework)*. These findings can aid the management in gaining a more clear picture on what triggers channel conflict, and use this insight to reflect whether certain aspects of their organization need to be re-evaluated in order to control the conflict. Secondly, channel conflict and the strength of its effect is strongly connected to the characteristics of an organization, its strategy, business and operating model as well as its leadership agenda; and channel conflict is bound to exist at some level or some form in all multichannel organizations. Thirdly, with the help of prior research and the interviewees, three fundamental management interventions were identified in order to help control the arising of channel conflict.

The first management intervention, *goal alignment*, indicates that companies must seek to align goals between the physical and online channel to enhance consensus that both channels are necessary for the success of the organization. To help achieve this the management can utilize various activities, such as measuring and actively communicating the cross-channel effects to the organization and including cross-channel metrics into the evaluation criteria of all members of the organization. The management should also achieve the acceptance within the organization that the

positive outcome of the integration might only come in the form of indirect contributions from one channel to the other.

The second management intervention, *explicit coordination and control*, refers to the possibility for companies to utilize a number of activities and explicit mechanisms to support the integration and control conflict. These activities include widely engaging members of the organization in multichannel business process work, in order to enhance interoperability of operations and achieve recognition for the adoption of the new processes needed to achieve the new capabilities. They also include instituting channel level reward sharing systems as well as individual level incentive systems to encourage cooperation between channels. Further mechanisms include aligning and supporting cross-channel marketing as well as optimizing the potential of both channels by clearly designed specializations. In addition, investing in the interoperability of IT systems can also be seen as a central activity to support the integration and control conflict.

The third intervention, *capability development*, indicates that companies need to invest in educating the members of the organization regarding the changes, challenges and opportunities that an integrated multichannel approach poses. They also need to bring new talent into the organization through targeted recruiting in order to bring new insight and understanding on the possible ways to achieve an effective and harmonious multichannel system.

5.2. Empirically reviewed framework and reflection on findings

The findings indicate that the original model was lacking crucial elements affecting the emergence of channel conflict, namely organizational characteristics and strategic alignments. These elements were added on the top of the model in order to illustrate that they contain the root cause on why some factors trigger conflict in retail organizations.

One should not infer that the same factors and challenges trigger channel conflict in all organizations, but rather the model implies that these sources identified have the potential of being a central reason for the conflict experienced. The origins for conflict lie in the clashes caused by *domain similarity between channels* and *goal incompatibility among channels* identified by Webb and Didow (1997) and the model implies that the sources identified are the potential issues that

these antecedents hold. It is also important to acknowledge that some level or form of channel conflict is always bound to exist. Solving one origin of conflict can easily lead to conflict in another area and therefore the subsections of the identified interventions need constant examination and re-evaluation.
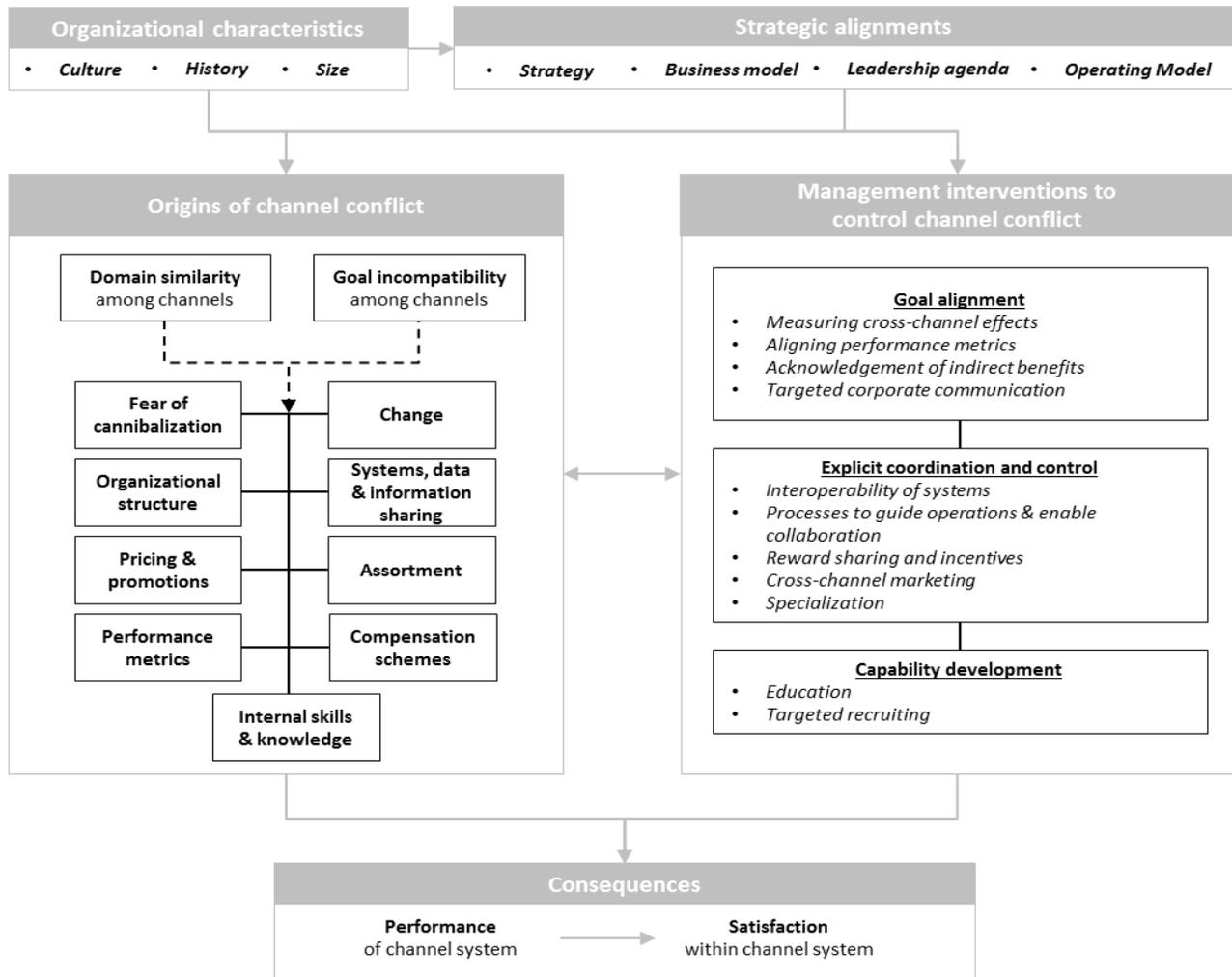

Figure 14: Conceptual Framework on Origins of Intra-organizational Channel Conflict and Potential Management Interventions

5.3. Discussion

Retailers possess very differing backgrounds and strategic alignments, while intra-organizational channel conflict is a very abstract concept, and therefore the channel conflict phenomenon is extremely hard to conceptualize and illustrate. In order to attain a more realistic view of the phenomenon, maturity stages of integration as well as the continuous and iterative change process faced by the retailer organizations should be incorporated in the model. However, one can argue that due to the ongoing transformation of the whole retailing industry, the fragmented competitive landscape and evermore increasing possibilities to add new features to the sales channels, a study exhaustively covering the phenomenon would have to be extremely extensive. Therefore, rather than comprehensively illustrating the intra-organizational channel conflict phenomenon, the model presented in this study can act more as a tool for managers to gain a more concrete and comprehensive view on what issues they should concentrate on when channel conflict produces major challenges, and what kind of interventions may assist in controlling the conflict.

The study also brings forth additional elements for consideration. Even though prior research stated that some conflict is always bound to exist in multichannel organizations (Coughlan et al. 2006), channel conflict was also perceived as a major obstacle to overcome in order to be able to effectively achieve integration of channels (e.g. Chatterjee 2010; Zhang et al. 2010). Having undertaken this study, I am curious if multichannel retail companies can ever enjoy the luxury of a harmonious organization with low level of channel conflict, as responding to the demands of the external environment requires constant reconfigurations in the whole organization, the operating models and ways of thinking. Is it so that strong channel conflict at some levels or parts of the organization is simply something that managers and organizations need to live with and tolerate?

Also, as the consolidation and globalization of retail organizations, has brought a lot of power to large retailers who can benefit from the advantages of scale, will these giants be the success stories in the future? Will they be able to conform to the needs of the customers, as due to their heavy infrastructure they might not have the ability to be responsive and agile enough? How could organizations actually become more responsive to the external environment and conform quicker

to the individual needs of customers? The thought of a completely new way of organizing retail operations is hard to imagine, but the idea that the transformation of the industry is opening paths for evermore innovative retail concepts is intriguing. Referring back to the conflict phenomenon, it is intriguing to ponder what kind of conflicts of interest would these potential new concepts and their organizations need to deal with?

5.4. Methodological reflections

A clear drawback of qualitative case studies is the ability to generalize the findings (Yin 1994). It was argued that a multiple case study often provides stronger evidence (ibid), and I believe this to be the case in general. However, it became evident that as multichannel retail organizations differ so substantially regarding their structures, cultures and business models, it is very hard to generalize the findings related to the channel conflict phenomenon. Potentially more generalizable findings for a certain type of retailer could have been achieved by concentrating on just a few similar organizations, and by combining the views of people from different functions and various levels of the organization. This was to some extent to be expected, but the second issue that became evident during the study was that the issues triggering conflict are also very dependent on the maturity stage of the integration. This induces a lot of challenges in selecting the cases as they would need to be companies operating with similar business models and preferably be at a similar development stage in their integration for the findings to be fully comparable.

5.5. Theoretical implications

This study contributes to the theory, by combining insights and knowledge from a variety of fields of research in order to build a more consistent view on the intra-organizational channel conflict phenomenon. The study scrutinizes issues that the antecedents of conflict identified by Webb and Didow (1997) actually encompass in a retail organization context. It also builds on the findings of Steinfield et al. (2002b) on multichannel management strategies, to depict what management interventions are efficient in controlling conflict. By adding these new perspectives to existing research, it brings further insight to the channel conflict phenomenon in the retailing context.

Even though the findings are much in line with prior research, the study indicates that some adjustments need to be made when the models are used for the context of retail organizations as well as when the focus is primarily on intra-organizational channel conflict. It also highlights the fact that multichannel retailers should not be handled as a unity, but rather acknowledge that the landscape is extremely fragmented. Perhaps very detailed concentration on a certain group of retailers operating under similar business models should be done in order to derive results that can be more generalizable.

5.6. Managerial implications

From the findings of this study, it becomes evident that integrating the physical and online channel is not a simple process for general merchandise retailers. Regarding channel conflict, the major challenge of managers is the design of the business and operating model in a manner that suits the organizational characteristics and the aligned strategy. However, even with the adequate design and execution of these high-level alignments conflict is bound to exist between channels. With the acknowledgement and understanding of the origins of channel conflict, managers have the possibility to be proactive in controlling the conflict arising as well as contemplate whether certain aspects and mechanisms of their organization need to be re-evaluated in order to control the conflict. Concerning controlling the conflict, this study stresses three types of interventions: *goal alignment*, *explicit control and coordination* as well as *continuous capability development*.

5.7. Limitations and suggestions for further research

Although the reliability and validity of this study can be considered at least satisfactory, the research is imposed by limitations. According to the realist approach taken in this study, reality is only imperfectly and probabilistically apprehensible and the researcher is value-aware (Sobh & Perry 2006). Even though the findings were triangulated, they remain only probabilistically apprehensible and cannot be regarded as absolute truths.

In order to enhance generalizability of the origins of intra-organizational channel conflict and management interventions to control it, future research should emphasize the similarity of business

models and add more retailers to the scope to investigate the accuracy of the findings on the channel conflict phenomena. In order for managers to be able to respond and proactively react to challenges that are faced at different stages of the integration, it would also be very crucial to study the impact that the maturity of the integration process has on the effect of channel conflict. Another aspect that would be interesting to research would be that, how would the findings differ if the study would be conducted from an opposite direction, in other words to study the origins of channel conflict when online retailers launch and integrate a physical store channel.

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APPENDICES

<u>**Interview Frame (translated to English)**</u>

Background

- Could you briefly describe your own role in the organization as well as the business and mode of operations in your organization?
- What where the most significant reasons for your organization to shift to a multichannel system (i.e. launch the online channel)?
- How does the customer benefit from the multichannel approach? What about the company?
- Are the physical and online channels managed as separate units or as one unity?

If separately:

- Does the organization intend to increase integration?
- Reasons for NO/YES?

If together as one unity:

- Which factors led to the decision to integrate?
- Did the channels function as separate units in the beginning?

Theme questions

- In your opinion, what are the most significant challenges related to the integration of the sales channels?
- What do you see triggering intra-organizational channel conflict in multichannel organizations? How and in what form is the conflict visible and evident?
- What does the efficient management and operation of multiple channels require from a retail organization and its managers? What is the most significant changes that the integration of channels brings about?
- How can the effect of the intra-organizational channel conflict be mitigated?
- Are there certain mechanisms in place to steer and enhance collaboration between the members of different channels?
- Do you experience resistance to change within the organization? How do you manage the change that arises with the integration?

- How do you perceive the future development of multichannel retailing? Do you believe that retail organizations will aim at integrating their channels or do you believe that the channels will be managed separately in order to derive the best possible potential of individual channels?

Checklist

Let us go quickly through the topics covered. You can at any point bring forth issues you feel are important to consider and where left out during the interview.

- Your personal role and background in retailing
- Background and reasons to move in to utilizing multiple channels
- Benefits of multichannel retailing
- Challenges in multichannel retailing
- Major issues in management of multichannel retailing
- Vision of future development

Thank you!