Chapter 12:
Impact of CRM on Marketing Channels
Overview

Topics discussed:

- CRM and Marketing Channels
- CRM and Multichannel Design
- CRM and Multichannel Management
CRM and Marketing Channels

- What are channels?
- What is the role of channels for CRM?
- What types of channels exist?
- Which multichannel trends exist?

CRM and Multichannel Design

CRM and Multichannel Management
CRM and Marketing Channels – Definition

A **channel** is basically a format for accessing a customer base

- **Distribution channels** are used to manage the flow of goods and services from the manufacturer to the end-user
- **Contact channels** are used to manage the flow of information between any two parties, using one or more contact modes
CRM and Marketing Channels – Channel Types

Channel Types

Indirect Channels

- Offline Channels
  - e.g., stores, sales force, catalogs of third party

- Online Channel
  - e.g., third party website

Direct Channels

- Offline Channels
  - e.g., own stores, own sales force, own catalogs

- Online Channel
  - e.g., own website
Indirect customer relationship management requires the use of an intermediary to manage the end-customer relationship indirectly. For example, Henkel sells its products through supermarkets.

**Advantages**
1. Managing channels through specialized intermediaries
2. Use of existing channels (less costly)

**Disadvantages**
1. Lack of control over the intermediary’s CRM activities
2. Need of intensive intrachannel coordination
CRM and Marketing Channels – Indirect Channels

**Indirect offline channels** can enhance customer satisfaction and loyalty if its challenges are addressed effectively.

**Challenges / Disadvantages:**
- Dilution of CRM strategies
- Indirect control of CRM through channels
- Eliciting customer information from all channels for central processing

**Indirect online channels** are a low-cost alternative to achieve great coverage.

**Challenges / Disadvantages:**
- Price focus of customers
- Low switching costs
Direct customer relationship management does not include an intermediary; product information is communicated directly to the consumer. E.g., In 2006, Nivea opened its first company-owned store in Hamburg, Germany.

**Advantages**
1. Control of CRM activities
2. Direct contact with customer guarantees service/information quality

**Disadvantages**
1. Implementation of direct channels costly
2. Need to develop channel-specific skills
CRM and Marketing Channels – Direct Channels

Direct offline channels can enhance loyalty due to the ability to create social and economic bonds with the customer.

Challenges / Disadvantages:
- Channels are very costly. Thus, firms increasingly switch to electronic channels and/or develop customer self-service strategies (Payne & Frow, 2004).

Direct online channels are a low-cost alternative to achieve coverage and a valuable source for customer information.

Challenges / Disadvantages:
- Price focus of customers
- Low switching costs

Source: Payne & Frow, 2004
Firms can combine different channel types in a **multichannel system**:
### Key characteristics of different multichannel systems:

<table>
<thead>
<tr>
<th></th>
<th>Few Channels (indirect, offline)</th>
<th>Many Channels (indirect, offline)</th>
<th>Few Channels (indirect, online)</th>
<th>Many Channels (indirect, online)</th>
<th>Few Channels (mixed)</th>
<th>Many Channels (mixed)</th>
<th>Few Channels (direct, offline)</th>
<th>Many Channels (direct, offline)</th>
<th>Few Channels (direct, online)</th>
<th>Many Channels (direct, online)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Need for intra-channel coordination</td>
<td>med</td>
<td>high</td>
<td>med</td>
<td>high</td>
<td>high</td>
<td>high</td>
<td>low</td>
<td>med</td>
<td>low</td>
<td>med</td>
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<tr>
<td>Implementation costs</td>
<td>low</td>
<td>low</td>
<td>low</td>
<td>low</td>
<td>med</td>
<td>high</td>
<td>med</td>
<td>high</td>
<td>low</td>
<td>high</td>
</tr>
<tr>
<td>Need for channel-specific investments</td>
<td>low</td>
<td>low</td>
<td>low</td>
<td>low</td>
<td>med</td>
<td>high</td>
<td>low-med</td>
<td>high</td>
<td>low-med</td>
<td>high</td>
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<tr>
<td>Coverage</td>
<td>low</td>
<td>med</td>
<td>med</td>
<td>high</td>
<td>med</td>
<td>high</td>
<td>low</td>
<td>med</td>
<td>med</td>
<td>high</td>
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CRM and Marketing Channels – Multichannel Trends

1. Proliferation of direct channels
2. Multichannel systems as a norm
3. Multichannel shopper
4. Research shopper phenomenon

Multichannel Trends
1. Proliferation of direct channels
   - Ubiquitous presence of the Internet and growing number of new electronic channels
   - Consumers take advantage of great variety of channels to seek information and transact directly with firm
   - Firms have direct access to end customer and can track consumers’ purchase behavior

2. Multichannel systems as a norm
   - Multichannel strategies are increasingly implemented by firms
     - Trying to comply with customer preferences and to keep up with competition, firms are pushed (*push effect*) towards a multichannel strategy
     - A *pull effect* arises due to a multichannel strategy’s potential for improvements in customer loyalty, sales growth, and efficiency
3. Multichannel shopper

- Growing number of multichannel shoppers, i.e., customers who buy in more than one channel within a specific period of time
- Multichannel shoppers are attractive to firms as they shop more frequently and spend more money than single-channel shoppers
- Customers benefit from shopping from multiple channels as they derive differing benefits from different channels

Source: Verhoef, Neslin, & Vroomen, 2007

* Entries are mean factor scores and mean standardized score after sales
4. Research shopper phenomenon

- The research shopping phenomenon increasingly emerged with the proliferation of direct channels
- Research shoppers search product information in one channel, but purchase it in another channel
- Customers benefit from research shopping as they derive differing benefits across different stages of their buying process
- Firms face the challenge of loosing the customer in the course of his/her shopping process.

Source: Verhoef, Neslin, & Vroomen, 2007
CRM and Marketing Channels – Multichannel Trends

Overall opportunities and challenges due to multichannel trends:

**Opportunities**
1. Widening coverage of the consumer population
2. Improved customer information for the firm
3. Lower dependency on specific channel partners

**Challenges**
1. Media planning increasingly difficult
2. Channel conflict and differentiation
CRM and Multichannel Design

- Which multichannel design attributes exist?
- When to apply which multichannel design?
### CRM and Multichannel Design – Design Attributes

Critical decision factors for the design of a multichannel system:

<table>
<thead>
<tr>
<th>Number of channels</th>
<th><strong>Pro:</strong> Larger number of channels leads to greater market coverage</th>
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<tbody>
<tr>
<td></td>
<td><strong>Contra:</strong> Risk of intra-brand competition</td>
</tr>
<tr>
<td></td>
<td>• Pressure on product price</td>
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<td></td>
<td>• Reduction of service outputs</td>
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<tr>
<td></td>
<td>• Damage of brand image</td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>Intensity of offered channels</th>
<th><strong>Pro:</strong> More intensive distribution leads to greater market coverage</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td><strong>Contra:</strong> Risk of intra-brand competition</td>
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<thead>
<tr>
<th>Types of offered channels</th>
<th><strong>Pro:</strong> Complementary mix of channels meets more of the customers’ service output demands, leading to customer satisfaction</th>
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<tr>
<td></td>
<td><strong>Contra:</strong> Considerable coordination and administration effort</td>
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</table>
Firms need to consider two aspects when designing a multichannel strategy:

1. The combination of channels should **maximize synergies and minimize cannibalization**
   - *Channel synergies*: The existence of one channel increases performance in complementary channels as the two channels complete each other in terms of product and service provision
   - *Channel cannibalization*: The existence of one channel decreases performance in substitutive channels as no additional value is provided to the customer

2. The channel system should **fit the firm’s overall business strategy and environment** (Kabadayi, Eyuboglu, & Thomas, 2007).
   - *Business strategy*: differentiation strategy, cost-leadership strategy, etc.
   - *Environmental conditions*: available resources, environmental complexity and dynamism, etc
CRM and Multichannel Design – Designing Optimal Offers

<table>
<thead>
<tr>
<th>Business Strategy</th>
<th>Environmental Conditions</th>
<th>Multichannel Strategy</th>
<th>Firm's Success</th>
</tr>
</thead>
<tbody>
<tr>
<td>Differentiation strategy</td>
<td>Resources available, dynamic and complex environment</td>
<td>Great variety of channels, mostly direct channels</td>
<td>+</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Limited variety of channels, mostly indirect channels</td>
<td>-</td>
</tr>
<tr>
<td>Cost-Leadership strategy</td>
<td>Little resources available, stable and less complex environment</td>
<td>Great variety of channels, mostly direct channels</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Limited variety of channels, mostly indirect channels</td>
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CRM and Multichannel Management

- How to coordinate an existing multichannel system / design?
- How to manage multichannel customers?
The achievement of customer loyalty is a challenge in a multichannel environment.
The integration of channel functions helps to enhance customer loyalty

- The integration of channel functions refers to the combination of service outputs from various channels. E.g., H&M allows customers to return their online purchases in any store.
- Channel integration allows the firm to gain access to more customer data and to learn from recorded customer behavior.
- Channel integration thereby increases customer satisfaction and loyalty.
Advantages and disadvantages of channel integration:

**Advantages of Channel Integration**
1. Enhanced customer satisfaction and loyalty
2. Greater customer value

**Disadvantages of Channel Integration**
1. High channel coordination effort
2. Price differentiation between channels not possible
Advantages and disadvantages of channel separation:

Advantages of Channel Separation
1. Lower channel coordination effort (only for limited number of channel types)
2. Increasing short-term profits

Disadvantages of Channel Separation
1. Lower customer-retailer loyalty
2. Lower customer value
Multichannel shoppers, *i.e.*, customers who buy in more than one channel within a specific period of time, tend to be more profitable than single-channel shoppers:

1. **Multichannel shoppers are more loyal**
   - Their service output demands can be easier met as multichannel shoppers choose the most appropriate and convenient channel for each transaction

2. **Multichannel shoppers spend more money**
   - They see advertisements more frequently through various channels

3. **Multichannel shoppers purchase more frequently**
   - Shopping is possible in any situation

4. **Multichannel shoppers are typically heavy users**
   - Customer self-selection: More profitable heavy users tend to purchase from multiple channels (Neslin et al., 2006)

Source: Neslin et al., 2006
It is important for firms to identify multichannel shoppers to increase profits.
Management of research shoppers, *i.e.*, *customers who search product information in one channel, but purchase it in another channel*, is challenging

- Risk to lose customer in his / her shopping process, *e.g.*, if customer uses one firm’s channel for search but another firm’s channel for purchase
- Profound knowledge about research shopping required!

Source: Verhoef, Neslin, & Vroomen, 2007
Drivers of research shopping

- Attribute-based decision making
  - i.e., customer perceives one channel to be especially convenient for search and another channel to be especially convenient for purchase

- Cross-channel synergy
  - i.e., searching in one channel increases economic benefit of purchasing in another channel

- Lack of channel lock-in
  - i.e., if switching costs are low, searching in one channel does not increase likelihood of purchasing in same channel
A channel is basically a format for accessing a customer base. It functions as a route to market for products and services.

Channels can be divided into direct and indirect channels. Each channel type offers advantages and disadvantages for the firm.

Choosing the right channel is a fundamental means for creating customer loyalty, which increases the value of the customer to a firm and thus long-term profits.

Current channel trends are the proliferation of direct channels, the emergence of multichannel distribution as a norm, the arrival of multichannel and research shoppers.

Efficient multichannel systems include channels that fit together, align with the firm’s business strategy, and reflect the environmental conditions.

Designing a multichannel strategy, a firm needs to decide on the type and number of implemented channels, and the intensity of each channel’s usage.
Impact of CRM on Marketing Channels – Summary

- The management of multichannel systems determines short-term and long-term profits of a firm
  - The separate management of channels reduces current costs and thus increases short-term profits
  - The integration of functions across channels improves the customer relationship. Higher investments are required today, leading to greater profits in the long run
- The management of multichannel shoppers and research shoppers is critical for firm performance
  - Multichannel shoppers are more loyal than single-channel shoppers, spend more money, and purchase more frequently
  - The right management of research shoppers reduces the risk to loose the customer in the purchase process
- It is therefore critical for the firm to have profound knowledge of the drivers of multichannel shopping and of the factors that activate research shopping
Impact of CRM on Marketing Channels – References