Managing Customers for Profit

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Chapter – 10
Managing Multi-Channel Shoppers
Instructor's Presentation Slides

Relevant Issues

Should multi-channel shopping be encouraged?

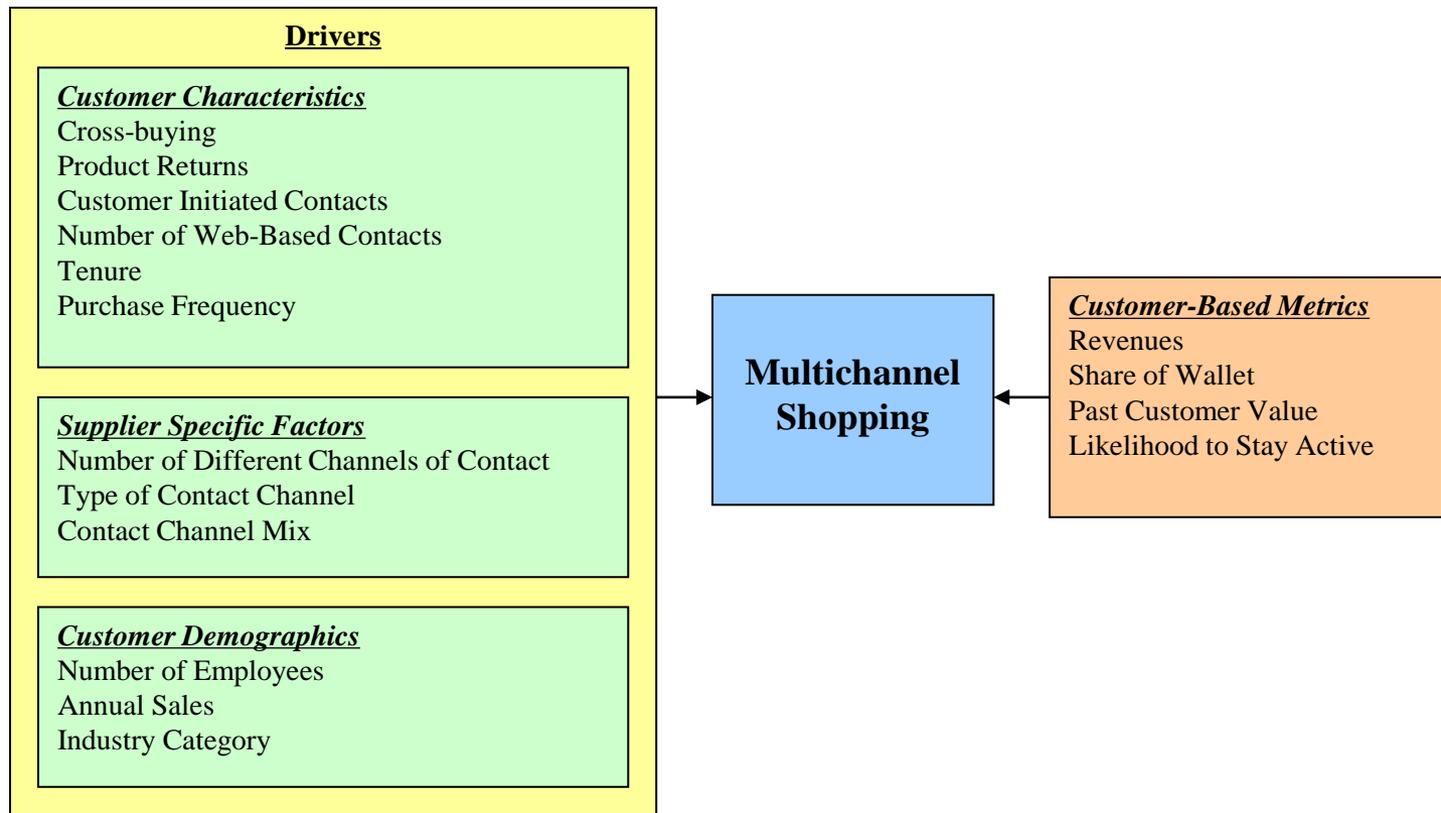Are multi-channel shoppers more profitable?

How can firms profitably manage customers for multiple-channel adoption?

Managing Multi-Channel Shoppers

- Over 60% of customers want to use multiple channels for making purchases

- Over one third of customers who regularly buy products already use at least three or more channels for making purchases

- Many firms worry that increasing the number of channels will only spread the same revenue across multiple channels

- Increasing the number of channels leads to many other positive outcomes for businesses including giving customers more searching and purchasing options and giving firms synergistic effects on customer profitability across channels,

Who are Multi-Channel Shoppers?

Typical Drivers of Multi-channel Shopping Behavior

Drivers

Customer Characteristics
Cross-buying
Product Returns
Customer Initiated Contacts
Number of Web-Based Contacts
Tenure
Purchase Frequency

Supplier Specific Factors
Number of Different Channels of Contact
Type of Contact Channel
Contact Channel Mix

Customer Demographics
Number of Employees
Annual Sales
Industry Category

Multichannel Shopping

Customer-Based Metrics
Revenues
Share of Wallet
Past Customer Value
Likelihood to Stay Active

Customer Characteristics

Cross Buying	Product Returns	Customer-Initiated Contacts	Frequency of Web-Based Contacts	Customer Tenure	Purchase Frequency
• Buying different products in different categories • Customers who buy across multiple categories are good candidates for multiple channels	• A company can use a satisfactory return process as another 'touch' point with the customer • Firms can use product returns as a way to migrate customers into different channels • Knowing that they can easily return or exchange any products that do not quite fit makes the customers feel safer about buying the product	• Exhibit higher levels of customers loyalty, involvement, and dependence on each of the other product distribution channels. • Signals the desire to have a relationship with the firm and is more likely and willing to buy in across multiple distribution channels.	• High frequency shows that customers have a stronger grasp on technology. • More likely to buy through an online channel • They believe that the firm is properly handling their relationship. • More likely and willing to shop in multiple channels because they have a higher level of trust with the firm.	• Customer tenure refers to the duration to which a customer has been purchasing products from a company • Customers who have longer tenure are usually considered more behaviorally loyal. • These customers would be more likely to venture into that new channel than a customer who is less behaviorally loyal.	• Customers who buy frequently are likely to desire efficiency in their transactions and therefore become quite familiar with the firm's offerings and distribution channels. • Customers who purchase frequently are also likely to shop through multiple channels. • More likely to consider other channels as purchase options.

Supplier Factors

Number of Channels Used for Contact.	Type of Contact Channel	Contact Mix Interactions
• Marketing pieces not only give the customers information about the products that they can purchase, but they can also guide the customers to purchase through difference channels.	• The type of channel through which the communication is received by the customer also impacts the likelihood of multi-channel shopping. • When consumers are contacted through highly personal contact channels (e.g., face-to-face interaction), a customer has a higher likelihood to buy across multiple channels	• When there are different interactions between the number and type of contacts, synergistic effects can happen with relation to multi-channel shopping. • If you know that based on a customer's previous transactions he is likely to buy in a new channel (e.g., the Internet), and if you can contact him in multiple channels with the same message, the customer will be even more likely to respond.

Customer Demographics

Customer demographics are used mainly to try and help profile the different customers who buy in multiple channels

For example, in the case of the B2B firm used in the marketing study described in this section, annual sales, firm size, and firms who resided in particular industries were positively related to multi-channel shopping.

This information would vary based on the products being offered and the firms who were likely to purchase these products.

Including customer demographics in any analysis of customers is likely to give managers the ability to not only know the profile of their own customers who are likely to purchase in multiple channels, but in addition, the profile of prospects that are most likely to buy in multiple channels.

Are Multi-Channel Shoppers More Profitable?

	Shopped in Single Channel	Shopped in Two Channels	Shopped in Three or More Channels
Revenues ($)	$4,262	$5,736	$16,100
Share of Wallet	20%	35%	60%
Past Customer Value ($)	$6,681	$10,874	$25,625
Likelihood of Staying Active	11%	15%	54%
CLV	$7,672	$10,325	$28,980

The table explicitly shows that as a customer shops across more channels he spends more revenue, spends a higher proportion on your firm, has a higher past profitability (*which is correlated with future profitability*) and has a higher likelihood of buying in the future.

To encourage customers to shop in multiple channels, a firm must identify customers who show the right signs of being potential multichannel shoppers and try and leverage those drivers to encourage multichannel shopping behavior

How do I determine which channel a customer will adopt next?

http://www.drvkumar.com/books/book_mcp.html
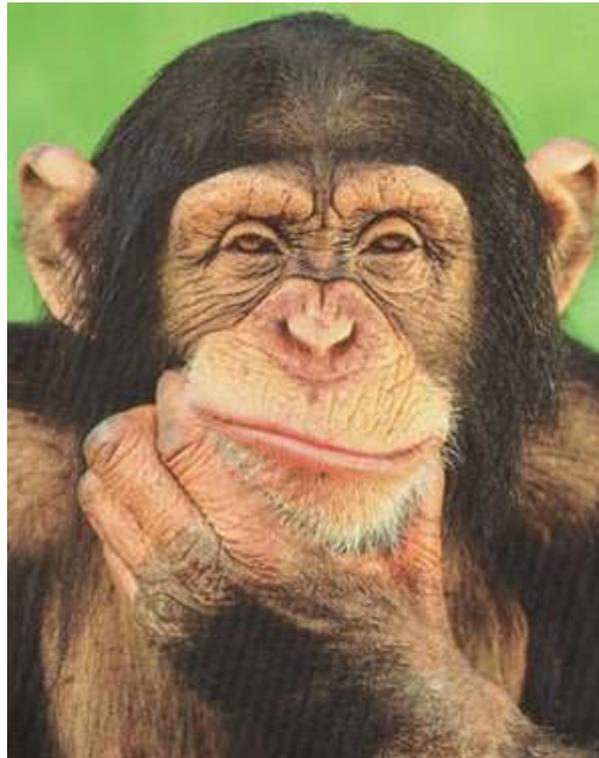
Channel Related Attributes

Traveling Cost
• It is more likely for a customer who travels to the retail store to shop to enter into a new channel of purchasing than it is for a customer who already shops in a channel with a very small travel cost

Product Availability
• The time frame between which a customer chooses to purchase a product and when he can actually use the product
• Customers who are not able to have their product immediately available are more likely to adopt a new channel sooner that can offer them immediate product availability.

Purchase-Related Attributes

Shopping Basket Size

- Shopping basket refers to the number of items a customer purchases in a single shopping trip

- A customer who always has a small basket size (fill-in trips) often has an immediate or unplanned shopping trip

- A customer who tends to have a large basket size is more likely planning the shopping trip and makes consistent visits to a particular store

- Customers with very large or very small basket sizes are more likely to adopt new channels sooner

Cross-buying

- Here cross-buying refers to the number of product categories a customer purchases

- Because a customer who buys across more channels is more likely to be a multi-channel shopper, it is also the case that a customer who buys across multiple channels tends to adopt new channels sooner

Price Discounts

- The level of price discounts refers directly to the depth of the price discounts that a store puts on its products

- Firms that place higher discounts on products are more likely to encourage customers to adopt new channels sooner

Product Returns

- Product returns are not necessarily bad and can serve the purpose to build the relationship between the firm and the customer when handled in a satisfactory manner

- Customers who return products some of the products that they purchase tend to be more willing than customers who do not return any products to adopt a new channel of purchase (especially when the product return and purchase occur across different channels)

Frequency-Related Attributes

Frequency of Purchase
• The higher the purchase frequency, the shorter the duration until the customer adopts the next channel

Frequency of Marketing Communications
• The marketing communications that a firm has with a customer plays a significant role in the channels that a customer adopts • A firm needs to send a moderate amount of marketing communications with the 'right' messages to get the most of the marketing communications. For this reason, marketing communications are related in a U-shaped manner with the time until a customer adopts a new channel

Customer Demographics

Just as in the previous section, once again customer demographics are included in the study to help firms identify the types of customers that are most likely to adopt a new channel sooner.

In this study, gender (male/female) and income were used to help classify customers in order to identify prospects as candidates for multi-channel shopping.

The results of this study showed that male customers with lower incomes were more likely to adopt a new channel sooner than female customers with higher incomes

By using customer demographic information in the framework of this study, the focal firm can now better identify prospects that are most likely to adopt new channels sooner and in turn acquire prospects that are more likely to adopt new channels faster.

Modified Proportional Hazard Model

The probability of a customer adopting Jth channel in the immediate time period given that he has not adopted the channel until now	=	Baseline Probability x impact factor x shared frailty

Proportional Hazard Model Implementation

Offer a discount certificate to encourage the customers to purchase from another channel. The incentive is variable in that it was dependent on CLV Score.

Contacting the right customers at the right time to encourage adopting another channel results in higher profitability

Implementation: B2B Multichannel Customers versus Single Channel Customers

	Multichannel Shoppers (Segment 1)	Single Channel Shoppers (Segment 2)	Difference
Revenues	$434,732	$193,274	$241,458***
Share of Wallet	0.61	0.20	0.41***
Past Customer Value	$373,664	$152,502	$221,162***
Likelihood to Stay Active	0.56	0.11	0.45***
CLV	$390,000	$170,000	$220,000***

*significant at α = 10%, ** significant at α = 5%, *** significant at α < 1%.

Final thoughts

- By creating a multi-channel experience for customers can give managers several benefits, especially with relation to CRM initiatives – customer retention and customer growth

- One of the main reasons why managers see multi-channel shoppers as more profitable is due to the fact that a customer can get so much more out of multiple channels.

- In addition, providing customers with multiple channels to purchase and to do some research on the products also offers a firm the chance to create some channel lock-in and channel synergies that are not available with only one channel

- Customers who purchase in multiple channels tend to have a deeper relationship with the firm and are more loyal with the firm

Final Thoughts (cont')

- A firm that wants to implement a campaign to encourage customers to adopt new channels should consider running a field experiment on a sample of its own customers before reaching out to the entire customer base.

- By doing so, a firm can first determine which of its own customers are multichannel shoppers and which customers are most likely to adopt this new channel.

- If the field study did end up being successful, the firm would first better understand the multi-channel shopper and also would be able to identify not only its own customers that are most likely to adopt new channels, but also new prospects that are also likely to be multi-channel shoppers.

End of Chapter 10