



MEASURING THE IMPACT OF CONSUMER DIRECT: UNDERSTANDING CROSS-CHANNEL METRICS



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PREFACE

Newer forms of the consumer direct (CD) channel, such as online shopping and home grocery delivery, have been the testing ground for the innovative business models of the New Economy. In the past year, however, many of these experiments have succumbed to the numerous challenges of operating profitably in the CD channel.

Despite these failures, or perhaps because of them, important lessons about the contributions of these new channels in the retail mix are emerging. Indeed, to be successful in the evolving multichannel environment, businesses must create a more integrated, seamless customer experience and deliver a high level of customer service by means of a variety of new and old media.

At the center of these new multichannel offerings is the consumer. More consumers are experimenting in the online channel and becoming more comfortable there. As they become more familiar with online offerings, their expectations rise. They expect an integrated experience, and are often frustrated when information or products are inconsistent across a company's online and offline channels. In response, they are developing their own strategies for leveraging the strengths of different shopping channels to meet individual and household needs.

Many companies are struggling to adapt to this rapidly changing environment, and though they are conducting many of their own experiments, they are finding few an-

swers. To conduct better experiments and to find better answers, businesses must assemble a new set of tools: They must evaluate and apply new technologies more appropriately, use customer information more effectively, orient organizational structures and incentives to leverage these new capabilities more efficiently, and measure the return on these investments more accurately. Without these tools, companies will find it increasingly difficult to navigate this new, complex environment.

Now in its third year, the Consumer Direct: Shopping in the Age of Interactivity research program, conducted by the Institute for the Future and the Peppers and Rogers Group, continues to break new

ground in its investigation of the evolution of the CD channel. In the course of this year's research, we have looked closely at several key areas that will shape the continued growth of the channel and help transform the competitive business landscape—personalization, mobile commerce, and supply chain innovations. Every interaction along the supply and demand chains will be shaped by the growing influence of consumers. As consumers gain access to more information and greater control over the purchasing process, companies are being forced to respond to them on a one-to-one basis.

To succeed in this effort, companies must learn to build one-to-one relationships with these customers, and with their business partners and suppliers throughout the supply chain as well, by leveraging the full range of channel options. In this fourth and final report of the Consumer Direct 2001 series, *Measuring the Impact of Consumer Direct: Understanding Cross-Channel Metrics*, we present a framework for developing effective cross-channel metrics by evaluating how consumers are behaving in a multichannel environment and by

assessing the limits of current measurement strategies in understanding the value of the different channels.

Chapter 1 examines the emerging multi-channel shopping environment and discusses the role of CD in the retail mix. Chapter 2 looks closely at the sophisticated shopping patterns emerging among consumers who are learning to utilize multiple channels to get the most value from their purchases. Chapter 3 presents key findings and best practices collected by in-depth interviews with leading U.S. retailers and service providers operating in multiple channels. It explores the benefits and value of channel integration. Chapter 4 evaluates the organizational, technological, and structural challenges companies must confront to successfully integrate the various customer channels. And finally, Chapter 5 discusses a new way of thinking about cross-channel metrics that moves companies beyond the limits of today's media and sales measurements into the future, where the quality of customer interactions and relationships are critical to a company's success.

THE EVOLVING CONSUMER DIRECT CHANNEL

Although many online businesses have come and gone, consumers continue to migrate to the CD channel. Indeed, the CD channel continues to grow as a broader range of consumers move online. Despite much publicity about the demise of many once-promising “pure-play” e-companies, new online models continue to emerge.

In fact, a quick reality check by Webmergers.com, which has been tracking Internet company shutdowns since January 2000, indicates that only 32 dot-com companies closed their doors in July 2001—30% less than the previous month, and the lowest number since September 2000. The site estimates that in total only 6 to 8% of all dot-coms—that is, Internet companies that have received some sort of formal funding from investors—have folded since the beginning of 2000.

A new trend is afoot, however. Many surviving dot-coms are not stand-alone e-commerce companies, but are backed by traditional retail businesses that were once criticized for moving too slowly into e-commerce. Now, however, these old-world retailers are well positioned to lead the next stage in the evolution of the CD channel.

This chapter examines key indicators of the continuing growth of the CD market: the rise of sophisticated CD use among consumers, the changing demographics of online shoppers, and the shift from pure-play models to integrated bricks-and-clicks

strategies. (“Bricks-and-clicks” refers to companies that have both a Web and a physical presence.) With these indicators in mind, we also revisit our forecast of CD sales for 2010.

SLOWER GROWTH, BUT DYNAMIC SHIFTS IN CONSUMER DIRECT

The CD channel—which includes traditional activities such as responses to catalogs, direct mail, newspaper or magazine ads, radio, television, and the yellow pages, as well as newer, more sophisticated activities such as online shopping and home grocery delivery—grew

Table 1–1
Most Households Engage in CD Shopping
(Percent of total population)

	1998	1999	2000	Percent Change 1999–2000
Non-CD*	25	17	14	-18%
Total CD shoppers	75	83	86	+4%

*Includes people who have never shopped in the CD channel and those who have not shopped there in the past 12 months.

Source: Institute for the Future/Peppers and Rogers Group, *Measuring the Impact of Consumer Direct: Understanding Cross-Channel Metrics*, International Household Survey, 2000; Consumer Direct Project, Household Survey, 1998 and 1999.

Table 1–2
More CD Shoppers, Especially Online
(Percent of population that purchased through each CD channel in the past 12 months)

	1998	1999	2000	Percent Change 1999–2000
TV/Mail	44	45	59	+31%
Catalog	74	77	75	-3%
Online	15	25	37	+48%
Grocery delivery	2	3	4*	+16%**

*Includes people who have ever purchased groceries online.

**Variations due to rounding.

Source: Institute for the Future/Peppers and Rogers Group, *Measuring the Impact of Consumer Direct: Understanding Cross-Channel Metrics*, International Household Survey, 2000; Consumer Direct Project, Household Survey, 1998 and 1999.

between 1999 and 2000, albeit at a much slower rate than in previous years. Most people (86%) used at least one CD channel in 2000, an increase from 83% in 1999 (see Table 1–1).

Much of the incremental growth in CD shopping can be attributed to consumers experimenting with newer channels. This is reflected in the dynamic growth of particular CD channels, most notably online shopping. Online shoppers grew from 25% to 37% of the population, up nearly 50% in one year (see Table 1–2).

Migration to More Sophisticated Consumer Direct Channels Continues

As more shopping channels become available to CD shoppers, migration among them is common—that is, CD shoppers who currently only shop from catalogs may eventually experiment with online or home grocery delivery shopping. Furthermore, a growing variety of store alternatives, such as online and mobile commerce, is enabling consumers to develop increasingly complex shopping patterns all around. Research conducted between 1998 and 2000 shows that the level of sophistication in CD use is rising. In order to gain a better understanding of this dynamic, we have been tracking different groups of CD shoppers to determine which shoppers are moving into which channels (see sidebar, “Exclusive Categories of Consumer Direct Shoppers,” for a breakout of these groups).

Table 1–3 highlights the impact of migration among CD channels. The number of Online+shoppers has increased steadily to well over one-

third of U.S. households. Much of this increase can be attributed to individuals who had previously used only catalogs or direct mail for their CD shopping, but who are now experimenting with online shopping. Similarly, the group of Grocery+ shoppers is growing dynamically, though the recent shakeout of online grocery service providers means that consumers have fewer options for grocery delivery.

Online Shoppers' Profile Is Shifting

As we saw in last year's research, the demographic profile of online shoppers continues to shift away from the early adopter profile of more educated, tech-savvy, and wealthier consumers. In fact, between 1999 and 2000, the largest growth in online shopping adoption occurred among people with a high school education or less and annual household incomes between \$15,000 and \$50,000 (see Table 1-4 on page 4). In general, online shoppers are now slightly less likely than in previous years to own a PC or a mobile phone and to go online frequently. This could reflect the increasing availability of online access at work, school, and other alternative public locations, such as libraries and cybercafés, all of which create more opportunities for a broader base of consumers to shop online.

Online Shoppers Are Frequent Purchasers

Increasingly, consumers are more comfortable tapping into the wealth of information and e-commerce opportunities on the Internet, and

*Table 1-3
More People Are Becoming Sophisticated CD Shoppers
(Percent of households)*

	1998	1999	2000	Percent Change 1999-2000
Non-CD shoppers*	25	17	14	-18%
Catalog+ shoppers	64	56	47	-16%
Online+ shoppers	9	24	35	+46%
Grocery+ shoppers	2	3	4	+16%**

*Includes people who have never shopped in CD channels and those who have not shopped there in the past 12 months.

**Variations due to rounding.

Source: Institute for the Future/Peppers and Rogers Group, *Measuring the Impact of Consumer Direct: Understanding Cross-Channel Metrics*, International Household Survey, 2000; Consumer Direct Project, Household Survey, 1998 and 1999.

Exclusive Categories of Consumer Direct Shoppers

Every household in the United States fits into one, and only one, of the following categories:

- *Non-CD*: Households with members who have never shopped in the CD channel or have not made a remote purchase in any CD channel in the past 12 months.
- *Catalog+*: Households with members who have shopped from catalogs, direct mail ads, newspaper/magazine ads, television, radio, or the yellow pages in the past 12 months. Excluded are households whose members have also engaged in the more sophisticated channels of online or grocery delivery shopping.
- *Online+*: Households with members who have shopped online in the past 12 months, excluding those households whose members use a grocery delivery service. Most of these households also use the traditional CD channels.
- *Grocery+*: Households whose members have used some form of remote-order home grocery delivery service in the past 12 months. These households may also use other CD channels.

*Table 1–4
Online Shoppers Look More Like the General Population Over Time
(Percent of online shoppers in each year, by education, income, age,
and technology behavior)*

	1999	2000
Education		
High school or less	21	34
Some college	35	27
College graduate	30	22
Postgraduate	17	17
Income		
< \$15,000	6	6
\$15,000–\$35,000	13	26
\$35,001–\$50,000	14	20
\$50,001–\$75,000	28	21
\$75,001+	39	27
Age		
18–34	38	40
35–44	26	27
45–54	22	21
55–64	9	8
65+	4	4
Technology Behavior		
Owns PC	92	88
Online at least once a week	91	89
Owns a mobile phone	71	66

Source: Institute for the Future/Peppers and Rogers Group, *Measuring the Impact of Consumer Direct: Understanding Cross-Channel Metrics*, International Household Survey, 2000; Consumer Direct Project, Household Survey, 1999.

in the process are gaining more confidence in their CD shopping experiences. Indeed, today's online shoppers are more frequent purchasers than online shoppers in the past (see Figure 1-1). As people become more accustomed to shopping online and discover that it meets their needs and expectations, and as companies iron out the initial issues with online shopping, such as security and overly complicated interfaces, customers are willing to try it more frequently.

Thus, as more people experiment with online shopping and other forms of CD, the population of CD shoppers grows increasingly diverse. On the one hand, more online shoppers means an expanding market for a greater variety of goods sold online. On the other hand, it has significant implications for the types of business models that will succeed in the CD channel.

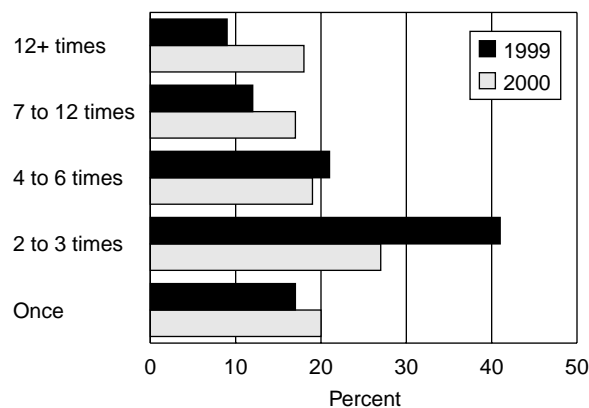
SHIFT FROM PURE-PLAYS TO TRADITIONAL BRICKS-AND-MORTAR PLAYERS

In last year's research, we featured several potentially successful CD business models (see the Consumer Direct report *Forecasting the Consumer Direct Channel: Business Models for Success*, 2000). One key component of a model's success is its ability to conduct business seamlessly between the physical and virtual worlds, leveraging the strengths of multiple channels—stores, online services, mobile access, catalogs, and so forth—in its retail mix. In the past several months, the market has made a critical shift away from pure-play Internet models toward more integrated bricks-and-clicks strategies, which leverage not only the brand name of well-established retailers but also the distribution network and inventories of existing stores to help fulfill CD orders. This shift is evident across a variety of retailers, most

notably online grocers. In the past three years, we have tracked the growth, changing characteristics, and evolving business models of this nascent market. Many of the models that we examined are now gone, unable to achieve profitability fast enough to justify the enormous investments in technology infrastructures, expansion into new markets, and brand-building efforts (see Table 1-5 on page 6). Pure-play online models that appealed to early adopter households struggled to scale up their operations and generate interest beyond small niche markets.

As the online shakeout continues, traditional bricks-and-mortar players are stepping in to fill the void left by the demise of the pure-plays. Shortly after Webvan closed its doors, for example, traditional grocery retailer Albertson's reported a 300% increase in online

Figure 1-1
Online Shoppers Purchase More Frequently Over Time
(Percent of online shoppers who purchased products online ... in the past year)



Source: Institute for the Future/Peppers and Rogers Group, *Measuring the Impact of Consumer Direct: Understanding Cross-Channel Metrics*, International Household Survey, 2000; Consumer Direct Project, Household Survey, 1999.

Table 1–5
Online Grocery Services Shift from Pure-Play Providers to Bricks-and-Mortar Heavyweights

<i>Online Pure-Plays</i>	<i>Bricks-and-Clicks</i>
<p>HomeRuns Closed: July 2001</p>	<p>GroceryWorks Operated by Safeway in partnership with Tesco (which operates Tesco.com, the largest e-grocer in the world). Will relaunch later this year under a new name.</p>
<p>Webvan Closed: July 2001</p>	<p>Peapod Owned by Ahold (which operates approximately 8,500 supermarkets, hypermarkets, and other store formats in Asia, Europe, Latin America, and the United States).</p>
<p>Kozmo Closed: April 2001</p>	<p>Albertson's Online Operated by Albertson's (which operates more than 2,500 stores in 36 states).</p>
<p>Streamline Closed: November 2000</p>	<p>HouseCalls Operated by Golub Corporation (which owns Price Chopper Supermarkets, operating in the Northeastern United States).</p>
<p>Shoplink Closed: November 2000</p>	<p>Peachtree Network Currently has contracts with 20 regional grocers across North America to provide online grocery services, as well as with Intermarche, the second largest French retailer.</p>
<p>Priceline's Webhouse Club Grocery Closed: October 2000</p>	<p>Why Run Out? A Web-enabled logistics company that delivers products from local grocery retailers in Southern California.</p>

Source: Institute for the Future and Peppers and Rogers.

orders in the Seattle area. Many other bricks-and-mortar players are expediting plans to launch online services or to expand existing models. Likewise, Peapod, once the longest-standing pure-play, with a history of leveraging relationships with local grocers, is positioned to take advantage of the shifts in the marketplace as a wholly owned subsidiary of Ahold—a multinational food retailer that owns and operates large grocery chains in the United States, such as Giant Food Stores and Stop & Shop supermarkets. In this way, Peapod and Ahold are embracing the hybrid bricks-and-clicks model that leverages existing food distribution infrastructures. Currently, Peapod is distributing groceries from retail stores in Ahold’s East Coast Stop & Shop outlets, and fulfilling orders in the Chicago market from Ahold’s distribution center in Cleveland, Ohio.

Although the models are evolving to meet consumer demands for a more integrated shopping experience, and thereby accommodate consumers’ individual patterns of channel bundling, the turbulence in the marketplace and the demise of many of the available online options will undoubtedly have an impact on the growth of the CD channel.

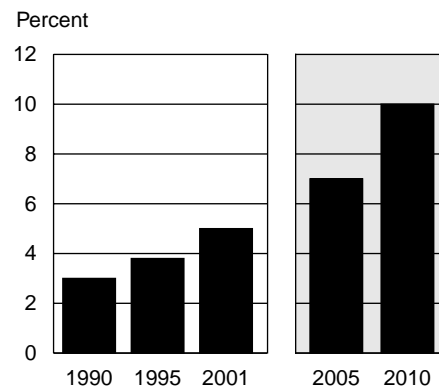
CONSUMER DIRECT FORECAST UPDATE

Last year, we forecasted that the CD channel would account for about 12% of retail sales by 2010. As we gain a better understanding of the dynamics influencing the evolution of the channel, we continue to develop new inputs into our forecast. As a result, our shorter-term 2005 forecast reflects slower, more cautious market expansion by CD service providers. However, the longer-term 2010 forecast remains in the range of previous years’ forecasts—at about 10% of retail sales (see Figure 1–2).

It is important to note that over the course of this research we have measured and forecasted CD as a share of total retail sales, which is limited to products. Our forecast does not reflect the growth in online transactions for consumer services, a broad and diverse category, which includes financial and insurance services, household cleaning, health care, travel, and education; nor does it include the growing number of online business-to-business transactions.

Although traditional CD channels still account for the largest share of the CD market, the online channel continues to grow rapidly. Between the first quarter of 2000 and the first quarter of 2001, online sales grew 30%. They currently make up just under 1% of all retail sales. We anticipate the CD market to continue to grow dynamically in the next decade, driven by online shopping and the emerging mobile channel (see the Consumer Direct report *Next-Generation Consumer Direct: The Evolution of Mobile Commerce*, 2001).

Figure 1–2
CD Forecast
(Percent of all retail sales)



Source: Institute for the Future; historical data from U.S. Department of Commerce; *Marketing Logistics, Inc.*

**CONCLUSION: CONSUMER DIRECT IS
BECOMING A MORE IMPORTANT PIECE
OF THE RETAIL MIX**

Throughout this program, we have maintained that the evolving CD channel will play its most critical role as part of an integrated retail strategy, with the potential to play both a direct and an indirect role in well over 24% of retail sales. In order to develop

measures for effectively evaluating the impact of CD, it is important to first understand the role CD plays in the purchasing process. As consumers gain more experience with a wider range of shopping channels, they are developing sophisticated and individualized shopping patterns that leverage the strengths of different media to optimize the value of their purchases.

The following chapter takes a closer look at consumers' cross-channel use.

MAXIMIZING VALUE: CROSS-CHANNEL SHOPPING STRATEGIES

Before we get into how businesses are integrating their sales channels and the details of developing cross-channel metrics, it is important to understand how consumers are responding to the increasingly complex multichannel environment. Indeed, consumers are faced with more choices than ever before about where, when, and how to shop. For businesses to respond effectively, they must understand the strategies consumers are developing, the roles of different channels in the purchasing process, emerging patterns of channel use, and the differences among consumer groups.

This chapter explores consumers' cross-channel behaviors and strategies—including the role of CD channels in the shopping mix, consumers' patterns of information gathering, and cross-channel purchases.

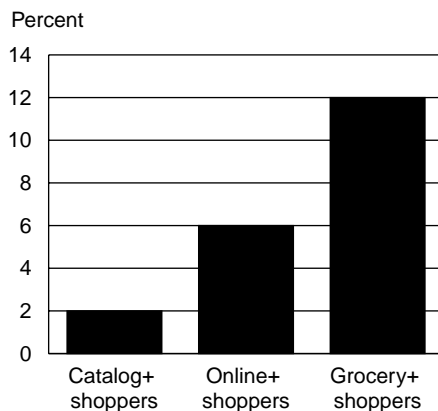
Table 2–1
Sophisticated Consumers Rely on Multiple Channels
 (Percent of shopper group that shopped ... in 1999 and 2000)

	1999	2000	Net Change
Online+ Shoppers			
Mail, etc.*	52	71	19
Catalog	94	89	-5
Grocery+ Shoppers			
Mail, etc.*	53	70	17
Catalog	92	83	-9

*Includes purchases made in response to direct mail ads, television, radio, the yellow pages, and newspaper/magazine ads.

Source: Institute for the Future/Peppers and Rogers Group, *Measuring the Impact of Consumer Direct: Understanding Cross-Channel Metrics*, International Household Survey, 2000.

Figure 2–1
Sophisticated CD Shoppers Are Early Adopters of New Shopping Channels
 (Percent of shopper group that made a purchase using a mobile device)



Source: Institute for the Future/Peppers and Rogers Group, *Measuring the Impact of Consumer Direct: Understanding Cross-Channel Metrics*, U.S. Household Survey, 2000.

CROSS-CHANNEL SHOPPING STRATEGIES

In our survey, we found that CD shoppers continue to integrate multiple CD channels into their shopping mix. The most sophisticated CD shoppers rely heavily on a variety of different channels (see Table 2–1).

As more consumers move online and experiment with more sophisticated forms of CD, they continue to use more traditional channels, albeit in different ways. The significant growth in 2000 in response to traditional mail offerings, for example, may be attributed to the movement of a broader base of consumers online. Typically, more traditional CD channels have attracted consumers with lower income and education levels. However, catalog shopping declined slightly in 2000, most likely due to the fact that more catalog companies are making their offerings available on the Internet as well.

In this year’s research, we tracked the movement of our exclusive CD shopper groups into the newest form of CD, mobile shopping. Grocery+ shoppers, the most sophisticated of all CD shoppers, are the most likely to have experimented with this new channel. This tendency highlights CD shoppers’ reliance on a varied mix of alternatives to meet their shopping needs (see Figure 2–1). (For more information on mobile shopping, see the Consumer Direct report *Next Generation Consumer Direct: The Evolution of Mobile Commerce*, 2001).

Other organizations have been tracking this phenomenon as well. In a study sponsored by the National Retail Federation, researchers evaluated the shopping patterns of customers of select multichannel retailers. They found that more advanced CD shoppers—those who

are purchasing online—are taking advantage of all the options available to them, relying heavily on stores and catalogs to make purchases from a given retailer (see Table 2–2).

Information Gathering

Access to a wide variety of channels has allowed consumers to gather more diverse types of information as input into their purchasing decisions. In our focus groups, CD shoppers described how they consulted multiple information sources.

I was going by word of mouth, looking on the actual Web site of each DSL provider ... and looking at *Computer Source* magazine and the advertisements, which stated the cost of the service each month. And then what kind of perks you actually got, like extra e-mails. So I just went with the one that had the best deals.

—Advanced CD shopper, single male, late 20s

On average, across different types of purchases, consumers consult about four information sources before making a purchase (see Figure 2–2).

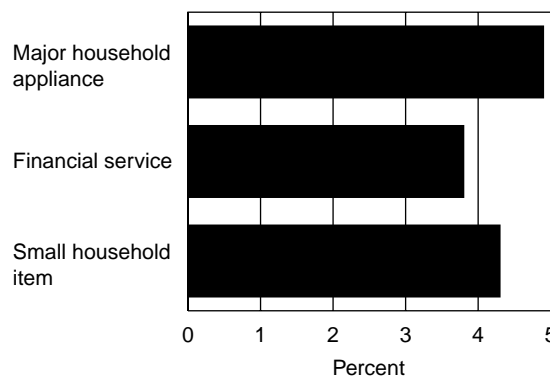
Sophisticated CD shoppers, however, are the most intensive information gatherers; more of these shoppers seek information from a greater variety of media and shopping channels before they buy (see Table 2–3 on page 12). These shoppers are developing complex strategies for using a variety of information sources to maximize the value of their purchases.

Table 2–2
Cross-Channel Shopping Is High
(Percent of customers purchasing from ... who also make purchases in a retailer's other channels)

	Store	Catalog	Online
Store shoppers	—	21	4
Catalog shoppers	68	—	4
Online shoppers	59	43	—

Source: National Retail Federation, *Channel Surfing: Measuring Multi-Channel Shopping*, 2000.

Figure 2–2
Consumers Consult Multiple Sources Before Making a Purchase
(Mean number of information sources used before purchasing ...)



Note: "Information sources" include mail ads, newspaper or magazine ads and articles, store visits, talks with sales representatives, friends or family, direct requests for information from the manufacturer, TV programs, and Web sites.

Source: Institute for the Future/Peppers and Rogers Group, *Measuring the Impact of Consumer Direct: Understanding Cross-Channel Metrics*, International Household Survey, 2000.

*Table 2–3
 Sophisticated CD Shoppers Consult More Information Sources
 (Percent of each shopper group that reported consulting ... before their last purchase)*

	<i>Non-CD</i>	<i>Catalog+</i>	<i>Online+</i>	<i>Grocery+</i>
Stores	64	75	74	74
Friends and family	51	63	68	81
Sales representatives	48	62	61	65
Newspaper or magazine advertisements	32	58	56	65
TV programs or newspapers and magazine articles	37	53	52	59
Mail advertisements	27	50	45	56
Information requested from companies	22	42	52	55
Catalogs	18	44	43	31
Web sites	5	12	54	41

Source: Institute for the Future/Peppers and Rogers Group, *Measuring the Impact of Consumer Direct: Understanding Cross-Channel Metrics*, International Household Survey, 2000.

*Table 2–4
 Sophisticated CD Shoppers Use More Sources in Each Information Category
 (Mean number of sources per channel used to get information before last purchase)*

	<i>Non-CD</i>	<i>Catalog+</i>	<i>Online+</i>	<i>Grocery+</i>
Stores	1.6	2.0	2.0	2.3
Friends and family	1.8	2.1	2.3	2.6
Sales representatives	1.3	1.4	1.5	2.1
Newspaper or magazine advertisements	1.5	2.8	2.4	3.0
TV programs or newspapers and magazine articles	2.3	3.1	2.6	4.5
Mail advertisements	1.2	1.9	1.7	2.7
Information requested from companies	.8	1.1	1.7	2.3
Catalogs	.5	1.3	1.1	1.6
Web sites	.3	.5	2.6	2.2

Source: Institute for the Future/Peppers and Rogers Group, *Measuring the Impact of Consumer Direct: Understanding Cross-Channel Metrics*, International Household Survey, 2000.

To illustrate this point further, Table 2–4 demonstrates how Online+ and Grocery+ shoppers are not only accessing a broader range of information resources than more traditional CD shoppers, but also how they are utilizing more of their options within each category.

Patterns of Purchasing Across Channels

Cross-channel use is high not only for browsing and shopping, but also for buying. Information-intensive CD shoppers simply make

more purchases, more frequently than other consumers, across multiple channels. This makes them among the most valuable customers to retailers (see Table 2–5).

A significant number of people shop in more than one retail venue before they make their purchases. In particular, a large share of people who purchase online and people who purchase in stores report consulting other channels, such as mail ads and catalogs, before making their decision (see Table 2–6). In most cases, online purchasers are more likely to use

*Table 2–5
Sophisticated CD Shoppers Are More Frequent Shoppers Across Multiple Channels (Percent of each shopper group that purchased products from catalogs or online ... in the past 12 months)*

Catalogs

	Total	Online+	Grocery+
12+ times	13	17	18
7–12 times	12	17	11
4–6 times	19	22	16
2–3 times	21	24	6
Once	11	9	10

Online

	Total	Online+	Grocery+
12+ times	7	17	36
7–12 times	6	17	10
4–6 times	7	18	18
2–3 times	10	28	15
Once	7	20	4

Source: Institute for the Future/Peppers and Rogers Group, *Measuring the Impact of Consumer Direct: Understanding Cross-Channel Metrics*, International Household Survey, 2000.

*Table 2–6
Consumers Browse Through One Medium and Buy in Another (Percent of consumers who purchased through one type of shopping channel after browsing through other channels)*

	Store Purchaser	Online Purchaser
Browsed with mail ads	46	62
Browsed in catalogs	41	53
Browsed with Web sites	23	—
Browsed with sales reps	—	63
Browsed with newspaper/magazine advertisements	57	60
Browsed with TV programs, newspaper/magazine articles	51	67

Source: Institute for the Future/Peppers and Rogers Group, *Measuring the Impact of Consumer Direct: Understanding Cross-Channel Metrics*, International Household Survey, 2000.

other channels than are store purchasers, which demonstrates that the online channel is supplementing rather than replacing other channels in the shopping process.

The National Retail Federation study demonstrates similar cross-channel influences in the shopping process. Figure 2–3 illustrates the synergies across multiple channels, most notably between catalogs and online services. Indeed, more than half of a multichannel retailer’s online shoppers report either purchasing or looking for an item online that they saw previously in a catalog. Similarly, about one-third of a retailer’s store shoppers report being influenced by its catalog and online offerings.

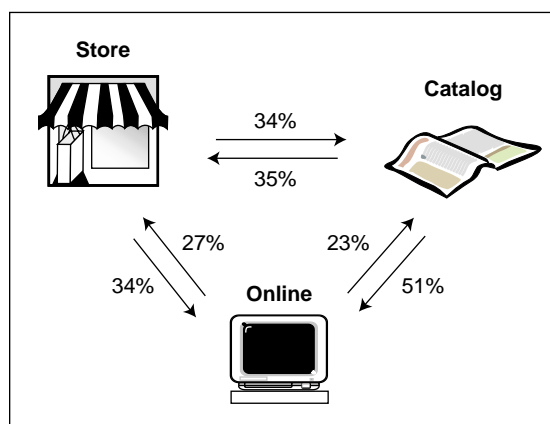
To sum up, our surveys point to the emergence of a very sophisticated model of shopping. When consumers are browsing, they use many different sources of information. Even

though these sources fall into several distinct categories, almost all shoppers use more than one. They make their purchases the same way. That is, many consumers, especially the most sophisticated CD shoppers, browse or shop in one channel and then buy in another. As a result—and this is what’s significant—sales data by channel do not reflect the true impact of each channel on the final purchase.

CONSUMER DIRECT EXPERIMENTATION CONTINUES, BUT PATTERNS ARE EMERGING

If consumers are using more channels in their shopping, does that mean that all channels are equally useful to them? The answer is no. For example, our surveys indicate that more experienced CD shoppers place a different value on certain information

Figure 2–3
Strong Cross-Channel Influence on Purchasing Decisions
(Percent of customers who looked for or purchased something previously seen in another channel, where a retailer offered more than one channel)



Source: National Retail Federation, *Channel Surfing: Measuring Multi-Channel Shopping*, 2000.

sources. While most shoppers identified sources like talking with another person (e.g., family and friends, or a salesperson) and visiting a store to touch the product as the most useful information sources, sophisticated CD shoppers were three to eight times more likely to find online sites useful (see Table 2–7).

Our research indicates that well-defined patterns of CD channel use are emerging. As shoppers experiment with different channels, they are developing strategies for using multiple channels in the shopping process to maximize the value of their purchases.

A Synergistic Pairing: Online Services and Catalogs

The online and catalog channels have proven to be especially complementary, and they are

perceived by consumers to have many of the same values and benefits. Indeed, the lines between catalog and online channels are blurring increasingly, as more catalogers effectively move more sales transactions online, and as online providers leverage paper catalogs to drive traffic to their sites. Our focus group participants identified three key areas where the combination of online shopping and catalogs provides real value.

Researching

Consumers conduct extensive research in preparation for more expensive purchases (prices depended on the individual, but \$100 was average). Participants identified catalogs and online services as particularly useful during this stage of the purchasing process, because they provide detailed information on

*Table 2–7
Sophisticated CD Shoppers Place a High Value on Web Sites as Information Sources
(Percent of each shopper group that used an information source and identified that source to be one of the two most useful in making a purchasing decision)*

	<i>Non-CD</i>	<i>Catalog+</i>	<i>Online+</i>	<i>Grocery+</i>
Stores	34	29	26	29
Friends and family	44	47	41	48
Sales representatives	29	32	27	26
Newspaper or magazine advertisements	29	34	17	20
TV programs or newspapers and magazine articles	29	20	19	24
Mail advertisements	7	10	11	4
Information requested from companies	7	7	9	7
Catalogs	8	15	12	10
Web sites	14	5	39	33

Source: Institute for the Future/Peppers and Rogers Group, *Measuring the Impact of Consumer Direct: Understanding Cross-Channel Metrics*, International Household Survey, 2000.

Both catalogs and online sites supplement store offerings, allowing shoppers to get what they want.

product features and allow shoppers to compare prices easily. Catalogs were particularly valuable in the passive browsing stage, allowing shoppers to browse at their leisure, whenever and wherever they wanted. One woman commented:

I get catalogs sent to me every day... I have a stack of catalogs I still have to look through. I can comparison shop at my leisure.

—*Novice Online shopper, married female, late 40s*

Online resources introduce an interactive element, allowing shoppers who already have an idea of what they want to conduct focused research on particular areas of interest, to collect opinions from experts and other consumers, and to form their own opinions of products and services. One shopper described how she solicits other consumers' opinions online:

We bought a digital camera about ten months ago. And first we started with *Consumer Reports*, which gave a great review. So then we posted it in a question to a newsgroup and we got lots of replies. Some of them were good. Some of them were bad. But we had to weigh whether those features were important to us.

—*Novice Online and Grocery shopper, married female, late 30s*

Supplementing Local Store Offerings

Both catalogs and online sites supplement store offerings, allowing shoppers to get what they want even if the local store doesn't carry

the product or have it in stock. Consumers with special needs found these resources particularly useful. For example, shoppers who require clothing in hard-to-find sizes often look online and in catalogs to meet their specific needs. One woman enjoyed shopping the online site of a local store that offered an expanded inventory.

In the store they have three sizes—they have short, regular, and long. Short is still too long. But online they have an extra-short ... and that fits. So it's just a wider variety that they're able to have in their big warehouse, rather than in the little store that's just down the street.

—*Novice Online shopper, married female, late 20s*

Similarly, consumers who have allergies or other medical conditions found specialized catalog and online providers to be valuable sources of information in helping them manage their conditions.

Providing More Convenience for Small-Ticket Items and Better Deals on Standard Products

Many consumers stated that if they find an item online or in a catalog with a low price—say, about \$25—that does not require much research, they feel very comfortable buying it online or through a catalog. Others indicated that if they find a brand-name item or a standard product that does not vary much in features and functionality offered at a lower price online or in a catalog, they would most likely go for the best deal. One man described how he looks for the lowest price on commodity products:

If it's a commodity item, I am looking for the cheapest price. For example, I bought Photoshop 6.0. Well, I know that I'm looking for the absolute cheapest price because Adobe puts out a quality product, and so if it's from the bricks-and-mortar place down the street or some cheap place on the East Coast—if it isn't the cheapest price, I don't really care.

—Advanced CD shopper, married male, early 30s

Immediate Gratification: Bricks-and-Mortar Stores

For the most part, bricks-and-mortar stores remain the cornerstone of consumers' shopping strategies. For many consumers, there are key components of the shopping process that simply cannot be replicated in a CD channel, making bricks-and-mortar stores the easiest solution to their shopping needs.

The Convenience of the Local Store

For many shoppers, the ability to make a run to the local store and to get the product they want right away is still the most convenient solution for most of their shopping needs. Although more people are consulting a greater variety of sources before making a purchase, those who know exactly what they want still feel that they can do better in the store most of the time. One shopper described how he found what he wanted online, but figured that it would be faster to run out to the local store:

I visited a couple of different Web sites ... and I did find what I wanted but said, 'You know, I can probably get this stuff locally. I don't have to buy it online I'm going to go out and hit the road and do this strip mall and that one, and that one, and I'm done.'

—Advanced CD shopper, married male, early 50s

Other consumers find it easy enough to run out to a local store to make a purchase, but like the option of ordering online if the item is out of stock.

I could've bought it online and had it shipped. But since the store was on my way anyway, it didn't matter. [I thought,] If you don't have it in stock, I'll just buy it online, because I can just press the 'buy now' button. It's nice to have the option.

—Advanced CD shopper, divorced male, late 40s

The Comfort of Service

For items that consumers felt they might need to return—such as electronics, appliances, and mechanical items that could break or clothing that might not fit—most preferred to make the purchase in a store. Most respondents trusted stores to stand behind their products and to accept returns if there was a problem, or if the item simply did not meet their expectations. For these types of purchases, services were more important than lower prices. One shopper put it this way:

For the most part, bricks-and-mortar stores remain the cornerstone of consumers' shopping strategies.

There is an increasing tension between having channels integrated and using price disparities to negotiate better deals when they are not.

I found another place that was \$100 cheaper, somewhere out near California, but by the time I paid for shipping and worried about what I would do if I needed to return it, I figured the difference in price wasn't worth it. So I went with a local company, since I had done business with them and I knew they were good about returns.

—Advanced Online shopper, married male, early 40s

For most big-ticket items, shoppers wanted to reduce risk and uncertainty by making the purchase in a store and getting access to value-added services like repairs and free replacements. One man described how it was worth paying a little more to a company he trusted to provide good service:

For every major appliance, I go to Sears, because they back it up, they stand behind it. You call them up and they're out in the next day or two. Sears may be a little bit more expensive than Best Buy, but Sears will stand behind the product.

—Advanced Online shopper, single male, late 20s

CHANNEL INTEGRATION ADDS VALUE

Companies are looking at how to integrate their different channels to create a more seamless experience, to maintain a higher level of consistency across their offerings, and to build more effective one-to-one Learning Relationships with their customers (see sidebar, "Building Learning Relationships"). But as consumers become more comfortable in alternative retail venues, there is an increasing ten-

sion between having channels integrated and using price disparities to negotiate better deals when they are not.

Taking Advantage of Pricing Disparities

For most consumers, after conducting intensive research, evaluating features, brand, and availability, and making a selection, the final decision comes down to price. Consumers are becoming very sophisticated in getting the best deal, which is a primary goal for many cross-channel shoppers.

Most shoppers compare online and catalog prices to store prices. They include the cost of shipping and whether they have to pay sales tax. Once they determine the final price for each company, some buy online or from a catalog if the price is significantly lower. If it is close to the store price, they tend to buy it at the store, so they can return it if necessary.

A growing group of shoppers recounted how they would visit the store armed with different prices collected online or from catalogs and newspaper ads, and then haggle with a sales representative to get a better price—sometimes lower than the CD price without shipping. These shoppers were focused on getting the best deal possible.

Basically, I shopped around different stores, looked it up in a catalog and then pulled the up-to-date price on the Internet. Then I went to a local store and got them to beat the price. And then I went somewhere else and got them to beat those prices.

—Advanced Online shopper, married male, early 40s

Building Learning Relationships

A company establishes Learning Relationships by tracking each contact with a customer, learning from that customer's feedback, and tailoring product, service, and communication based on that feedback. The result: treating different customers differently to meet a broader range of their needs, thereby increasing customer loyalty and the business' own sustainability. There are four strategies for companies to build one-to-one Learning Relationships:

- *Identify* individual customers so they are recognized in any medium or location, and all interactions with that customer can be linked and coordinated.
- *Differentiate* customers by their value to the company, then differentiate them by what they need from the company—starting with the most valuable customers.
- *Interact* with individual customers at every contact point, in order to learn more and more about their potential interests, needs, and priorities.
- *Customize* some aspect of the company's behavior (e.g., product, service, or other elements associated with it) toward the customer, based on that customer's needs and value.

Learning Relationships allow companies to make their customers more loyal and more profitable. The more the customer invests in the relationship, the greater is his stake in making the relationship work. By making the product more valuable to the customer through every successive interaction, the company will be well positioned to keep and grow this customer.

Many consumers, however, are frustrated with the lack of integration across channels.

I do all the research online, but pick it up from a bricks-and-mortar.... I know I get a better deal in the store ... because every time I went to another store, I got it \$100 cheaper.

—Advanced CD shopper, divorced male, late 40s

This strategy is mostly effective because many companies that offer catalog, online, and store channels have not integrated their sales channels yet. Some have a catalog price, an online discount or special, and then a store price. Consumers have learned to take advantage of these disparities to get the best deal.

The catalogs have different prices than what are in the stores—the catalog price. But if you order online you also get an online discount.... You see the catalog; you find what you want. That way you [can] go to the store ... or order online and get an extra discount.

—Novice Online and Grocery shopper, married female, late 30s

Receiving Better Service Through Integrated Channels

Many consumers, however, are frustrated with the lack of integration across channels. In some cases, companies that have not integrated their channels have alienated potential customers by not honoring prices offered in their other channels:

I found listed on their site wonderful prices for products, and I walk in and say, 'Here's the price I found; here's the printout from your site.' [They said,] 'We don't know anything about that; we're not going to honor that.' I don't buy from that store anymore.

—Advanced Online shopper, single male, late 20s

Others were annoyed with how much time is required to collect all the information to get the best deal. One woman expressed this common complaint well:

Everybody has different information for the same hotels, the same airline; the difference was \$200 Everybody is different. On the Internet, it was a better price. The other time was with my agent; another time was in the newspaper. So I just go back and forward. So that's why you lose too much time.

—Advanced CD shopper, married female, late 40s

As we will see in the next chapter, many companies are trying to integrate their channels to provide a higher level of service to their customers. For many retailers, a first step in this direction is allowing shoppers who buy online to return merchandise at the store. This is a value-added benefit that can motivate a consumer to purchase from one company rather than another.

I wasn't sure if the jeans were going to work right. So I made sure I looked on their Web site to see what their return policy was. And some places allow you to return purchases at the store—which I think is a lot more convenient than trying to have to ship it back. And that's something that I was kind of looking for too.

—*Novice Online shopper, married female, late 20s*

As more consumers learn to gather and use information collected online, they are starting to look for specific value-added information that requires effective channel integration on the retailer's end. This makes their shopping more efficient. For example, some consumers wanted the ability to view in-store inventories online in order to place products on hold. In this way, they could be sure it would still be at the store when they got there.

It would be really nice if you could go online and indicate that [you] want to go to this particular store location and inquire, 'Do you have this particular item in stock in that store or not, or can you get it there in two days?' And I'll go to the store in two days to pick it up and not bother going now.

—*Novice Online shopper, married female, late 20s*

CONCLUSION: SAVVY SHOPPERS ARE DEVELOPING STRATEGIES FOR AN UNINTEGRATED WORLD

As companies begin to integrate their channels and make their offerings and pricing consistent across channels, the question is: How will consumers react? As consumers adapt to new shopping channels, they seem to like the fact that a company's various channels are integrated to make hassles such as returns easier; but they also take advantage of un-integrated channels so that they can use different price points to negotiate better deals. Companies competing in this new landscape must differentiate their offerings on the value of their service or be doomed to shrinking margins as they haggle with savvy shoppers armed with crucial information.

The key challenge for retailers is to leverage multiple channels to provide consumers with options so that they can choose how they want to interact. In this way, companies can facilitate an easy and pleasant series of interactions that allows them to build effective one-to-one Learning Relationships. In order to maximize the benefits of a multichannel presence, successful retailers must develop strategies and measurements for effectively evaluating the impact of different media and channels on sales, regardless of where the sales transaction takes place.

The next chapter discusses some of the ad hoc efforts by some of the nation's leading retailers to create cross-channel relationships.

Companies competing in this new landscape must differentiate their offerings on the value of their service.

THE BUSINESS CASE: THE BENEFITS OF INTEGRATION

Businesses are discovering the value of integrating their CD and in-store distribution channels. In fact, innovative retailers that have implemented programs to enable their distribution channels to work together are experiencing direct and immediate benefits. They are generating online sales in addition to their in-store sales, and they are also finding ways to use their online channels to improve their in-store turnover. In this chapter, we present the most successful of these experiments and suggest what types of integration are most likely to increase sales in the future.

Channel integration will become increasingly tied to the synergistic effects of disparate channels working seamlessly together to provide a platform for transactions as well as continuous interactive communication with the customer. For this reason, integration will provide three other important benefits down the road: deepening customer relationships, leveraging the power of product information, and enhancing the retailer's brand presence. Even though the increased sales associated with these benefits may arrive later than the more immediate benefits of online sales, their ultimate impact will be at least as important.

IMMEDIATE IMPACTS ON REVENUE

The most immediate metric for the success of channel integration is the ability of a unified channel to generate net higher sales from all channels, including

online, catalogs, and stores. In our research, we spoke with executives from several established retailers who shared with us the various approaches they employed in integrating their retail channels. In this section, we look at their initial successes, and we explore their more recent activities.

Incremental Sales

Retailers can increase sales in stores, from catalogs, and incrementally online by presenting consumers with a comprehensive array of shopping channels that appear seamless. The transactions that occur in the online channel consist of two types of sales: those that are purely incremental and those that are merely shifted from the stores. Although there may be some benefits to shifting sales from the in-store to the online channel, those sales that are purely incremental represent the most direct benefit to the retailer,

The retailers deriving the highest incremental sales from their online channels are those that are differentiating their online offerings from those available in their stores.

and the most obvious demonstration of the value of channel integration. In our research, we found several retailers that provided evidence of early success in their efforts to integrate channel offerings.

Evidence

Determining which online sales are truly incremental is notoriously difficult. However, the retailers we spoke with had completed analyses that led them to believe that in some cases a significant portion of their online sales were new, and that, therefore, the companies were not cannibalizing their own in-store sales.

- A large discount department store calculated that 90% of its online business was incremental. The company arrived at this figure by noticing that the types of items people bought online were not available in stores nearby.
- A large grocery store chain estimated that about 50% of its online business was incremental. This included a combination of new customers who had not shopped in their stores before and existing customers who were making larger orders online.
- In a recent press release, Tesco reported that 40% of its online customers did not shop at Tesco's bricks-and-mortar outlets before going online. This suggests that at least 40% of its online sales were incremental.
- A furniture retailer conducted interviews with its customers and determined that 10% of its Web sales were incremental.

Perhaps the most striking aspect of these figures is their wide range, from 10% to 90%. This range is, to some extent, a function of the difficulty of separating incremental sales from sales shifted from stores. But the range is also

indicative of the types of products being sold. The retailers deriving the highest incremental sales from their online channels are those that are differentiating their online offerings from those available in their stores. This allows them to reach new customers by selling different types of products in each of the channels.

Different Types of Products

Almost all of the retailers we interviewed indicated that the size of their average order was significantly larger online than in stores. For example, a large discount department store reported an average purchase of \$80 online, versus \$28 in a store. A grocery store noticed an approximately 20% higher basket price for purchases made online. The company attributed some of this difference to shoppers who stop by a store just to pick up one or two items, a type of shopping that does not occur online. Similarly, a furniture store found that its online average purchase was about \$1,700, while the average in-store purchase was about \$700. People who made purchases in the store tended to buy lower-priced items like upholstery, while online shoppers were more inclined to buy bedroom sets and other large items.

Sales in the online channel also tend to be incremental when retailers offer products that are not sold in all of their bricks-and-mortar outlets. The online channel is particularly effective for selling items that have higher price tags, higher margins, and lower volumes. For example, a large discount retailer has been very successful in selling high-end personal electronics on its Web site—items it doesn't sell in stores. It is important to note that this retailer does allow customers to return these items to its stores, which removes one of the key barriers to online purchasing.

*New Types of Customers:
Retail Refugees and More*

Retailers are also reaching new types of customers through the online channel. An apparel retailer said that its online customers are 10% younger than its in-store customers. This analysis indicates that the online channel has attracted new customers who simply prefer to shop online.

Our online channel created a new group of customers for us. This group is younger, more computer savvy, and has a somewhat higher income level.

—Consumer product retailer

A furniture retailer referred to its online customers as “retail refugees”—people who have abandoned in-store shopping whenever possible. This group includes those who do not like to shop, those for whom a store is far away, and those who find in-store shopping time-consuming. (For more on the motivations of online shoppers, see the Consumer Direct report *Forecasting the Consumer Direct Channel: Business Models for Success*, 2000.)

The online channel has proven to benefit established retailers by the incremental sales it generates. The retailers that have been most successful in creating direct increases in revenue through their online channels have been those that have differentiated their online channels from their stores. But there are additional benefits to the online channel, too.

In-Store Sales

Retailers are also using their CD channels to increase store sales. Many retailers have been successful in using their online channel as another tool to influence customers to come

into the store to make purchases. Retailers are devising new and creative ways to use these various media for advertising and promotion.

Online Coupons and Promotions

An effective way to increase in-store sales is the use of online coupons and promotions that can be redeemed in stores, for two primary reasons.

First, these promotions provide a way to encourage retail refugees and other regular online shoppers to visit stores. Although the convenience of the online channel may be preferable for these consumers, in-store shopping can often be more powerful. It allows a fuller sensory experience for the shoppers, such as allowing them to touch a product, try it out, and interact with sales representatives and other shoppers. It also provides an environment more amenable to trial and experimentation, which consumers often find appealing. In short, getting online shoppers to come into stores provides better opportunities for cross-selling and up-selling, and is thus an effective way of increasing sales.

Second, online promotions are valuable because they can be tracked easily. We interviewed an executive at a large department store who described a promising new online promotion the store had recently developed. As the online customer is browsing the online offerings, she is presented with coupons for substitute or complementary products. The customer can print out the coupons and redeem them in the store.

Retailers can measure the success of these coupon campaigns accurately. They can tell how many users saw the coupon, how many clicked on the coupon, and how many printed it out. And most important, they can determine

Many retailers have been successful in using their online channel as another tool to influence customers to come into the store to make purchases.

The CD channel represents less of a medium for transactions and direct sales than for communication and interaction.

how many shoppers, and which ones, redeemed the coupon at the store. These coupons can also be matched with the identity of the customer and stored in the customer record to determine which customers are most responsive to coupons and promotions. Such records provide an important way to develop one-to-one Learning Relationships with customers, which is one of the indirect benefits of channel integration that we discuss in the next section.

To be effective, cross-channel promotion requires a real coordinated effort between a retailer's online and in-store operations (see sidebar, "Linking the Channels," on page 28). We discuss some of the difficulties associated with this integration in Chapter 4, "Integrated Channels: Challenges and Barriers."

INDIRECT BENEFITS OF INTEGRATION

Even though increasing CD and in-store sales may be the ultimate objective of integrating channels, there are intermediate benefits as well that lay the groundwork for higher sales in the future. Channel integration can enhance the shopping experience for the customer in three ways: by deepening the company's Learning Relationships with customers, by educating customers about products, and by enhancing overall brand presence. Future efforts to integrate channels will be increasingly tied to these types of services, and ultimately in converting these services to additional sales.

Deepening Learning Relationships

One of the most valuable aspects of the CD channel is its ability to enable retailers to interact with customers on a one-to-one basis and to deliver personalized service across all channels. In this case, the CD channel represents less of a medium for transactions and direct sales

than for communication and interaction (see Figure 3–1). The recognition of the value of personalization is a key driving force that leads retailers to develop their online offerings and to integrate systems and processes between their online and offline channels.

Facilitating Customer Contact

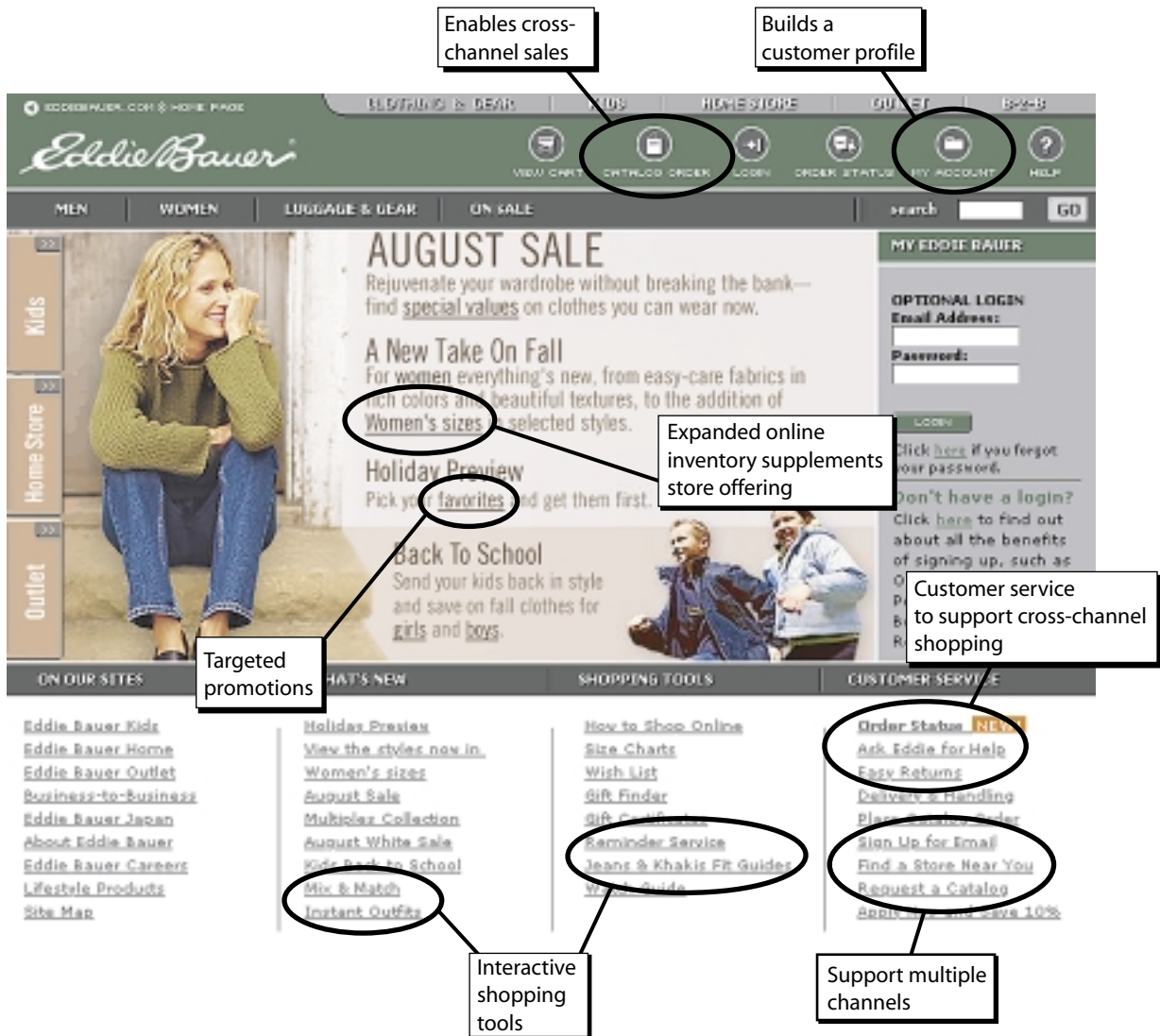
One of the most important aspects of channel integration is its ability to make customer contact easier, more relevant, and more effective. Channel integration allows retailers to enhance customer relationships by enabling the retailer to interact with customers at all points of contact—in stores, online, and on the phone. We spoke to one retailer who summed up this advantage well:

We did research and found out those customers who interact with us across multichannels are more valuable, because they buy more, and they spend more, and they are more loyal.

—Consumer products retailer

Truly integrated channels allow businesses to manage the history of those interactions to inform future communications. In this case, customer relationship management (CRM) systems can be an effective way to collect, manage, and analyze such data. One specialty apparel retailer, for example, collects e-mail addresses in each of its channels—in its stores, on the phone, by mail, and online. For customers who "opt in," the retailer keeps them updated with announcements of sales, promotions, and new products. It can then track these communications across channels to help manage relationships in the future, as well as to determine which types of promotions are most appealing. These

Figure 3-1
Innovative Retailers Leverage Online Sites to Facilitate Communication and Cross-Channel Interactions



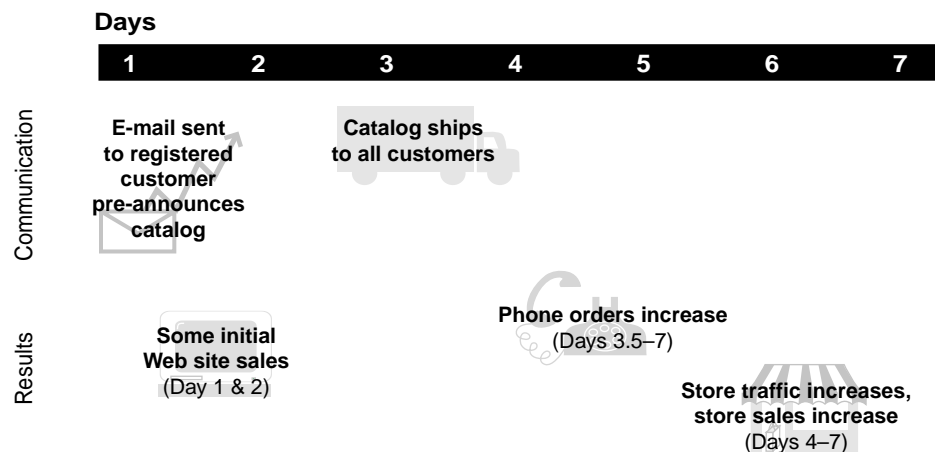
Source: Institute for the Future; www.eddiebauer.com.

Linking the Channels

We saw one of the most successful examples of cross-channel selling at an apparel retailer. This retailer used an integrated promotional strategy involving e-mail, catalogs, and stores to increase sales.

The retailer derives a significant amount of its sales from the seasonal catalogs it sends out several times a year. A few days before its catalog mailing, the retailer sends an e-mail to its customers announcing that the catalog will arrive in a few days (the retailer collects e-mail addresses via phone, e-mail, mail, and in stores). This retailer has found that these e-mails raise catalog sales significantly. Furthermore, the company has found that the catalog mailings coincide with significantly higher store traffic in the days after a mailing. This effort represents a multiple-channel promotion strategy that has proven very effective in raising sales across channels.

Figure 3-2
Cross-Channel Promotion Success



Source: Institute for the Future and Peppers and Rogers Group

communications provide a way to maintain contact with each customer and to deepen these relationships.

We do practice one-to-one marketing. When customers register with us, we maintain a profile of the customer. If we know that a customer always buys women's clothing, we might send them an e-mail advising them of our new women's collection.

—Apparel retailer

Bundling Service with Products

One of the benefits of integrating channels to deepen Learning Relationships is that it enables retailers to sell services that complement the products customers have bought recently. For example, one consumer electronics retailer collects phone and e-mail information when customers make purchases in a store. This retailer found that customers who purchase satellite televisions almost always decline the store's installation service. But the store knows that the installation is difficult, so it uses the information it has collected in the customer's profile to send an e-mail or to make a call to the customer a couple of days later to sell the service. This retailer found that the customer is much more receptive to the service at that time.

Focusing on Retention

One important implication of this strategy is that among established retailers, marketing efforts shift away from attracting new customers and toward retaining and maximizing the value of existing customers. Because selling

an additional item to an existing customer costs only a quarter to a third of what it costs to acquire a new customer, relationship-based transactions hold the promise of being very lucrative. Major retailers, especially those that cater to a higher-income clientele, are realizing some of these benefits already.

We view marketing more as a retention and customer service tool rather than as a new customer acquisition tool.

—Large department store

(For more detail on the value of the CD channel in developing relationships with customers, see the Consumer Direct report *Personalization: Managing Opportunity and Risk in the Consumer Direct Channel*, 2001.)

Disseminating Product Information

Another key function channel integration brings to retailers is the ability to disseminate product information to the customer more effectively. Retailers are finding that customers who have researched products and gathered information tend to be much more likely to make purchases. By serving as the provider of that information, retailers hope to influence consumers to buy the products from them as well.

A recent University of Illinois study that looked at the impact of information gathering on sales across channels supports this view. Researchers there found that, for five different product categories, information gathering in one channel leads to increases in sales in other channels. They found the strongest cross-channel correlations between information searches that occurred online and purchases that occurred in bricks-and-mortar stores.

Because selling an additional item to an existing customer costs only a quarter to a third of what it costs to acquire a new customer, relationship-based transactions hold the promise of being very lucrative.

Customers who were actively gathering information on products tended to buy more overall—both online and offline.

Influencing Sales with Information

Retailers have used the wealth of consumer behavior data the CD channel generates to establish a clear link between information gathering and purchasing. We spoke with several retailers that provided us with evidence of the link between product researchers and purchasers. Several respondents indicated that those customers who were actively gathering information on products tended to buy more overall—both online and offline.

There is a higher rate of closure of sale with customers who first do research online. The Web site provides them with the opportunity to gather information that they would not otherwise get in the store.

—Consumer electronics retailer

Informed customers do tend to buy more than those who did not collect information. We know that because we do test groups. The rate varies anywhere from 2% to 50% more.

—Large apparel retailer

Those [customers] who looked at information online have a 20% higher basket price.

—Grocery retailer

Those [consumers] who search for information online are much more likely to buy, because they are 'presold.' Customers in stores have their defenses. When a salesperson asks them if they need help,

they typically say, 'No, we are just looking.' Statistically, a customer who did research online is three times more likely to buy.

—Furniture retailer

Another company we talked with mentioned that online information is even more important for retailers that are able to offer only low-level customer service in their stores. Providing the information the customer needs before he gets to the store enables these retailers to sell the more high-end products that would normally require trained salespeople.

The primary goal [of the online channel] was to sell, but as it turns out, many people use the site to accumulate information and then buy in person.

—Discount department store

The clear establishment of this link between information-searching behavior and purchasing has been one of the key factors influencing retailers to invest in integrating their online, catalog, and in-store channels.

Linking Information Gathering to Purchasing

The second half of the challenge, then, after providing consumers with the information they want, is to encourage them to make purchases from the same retailer who provided the information. Our focus groups revealed how sophisticated consumers are in gathering information. They are also adept at using multiple sources. Our surveys revealed that they consult, on average, four to five types of information, such as direct mail, print ads, sales representatives, and stores, to make major purchasing decisions. So, merely providing

information is not sufficient to influence customers to make purchases in the same place.

Our focus groups revealed that while consumers are adept at gathering information, they also value convenience highly. Delivering this convenience at the same time as providing relevant information is the necessary trigger to shift the consumer from the information-gathering mode to the purchasing mode.

Amazon.com demonstrated a successful single-channel effort at making purchases easy by presenting returning customers with a “one-click” option to purchase while they are looking at reviews of books and CDs.

Channel integration can bring a new level of convenience to the information-gathering experience. Retailers need to present a comprehensive multichannel offering to consumers as they are researching and digesting information. Retailers can leverage the power of their multichannel offerings by presenting them as a seamless array of choices that trigger the convenience-seeking instinct of the consumer. For example, an in-store coupon that appears on a Web site as customers research product information provides a trigger for the in-store shopper to make a purchase. Encouraging shoppers to research online and then come in to the store to make purchases has proven successful for one company that we interviewed.

Twenty percent of our customers go online to do research and then buy in-store.

—Consumer electronics retailer

Consumers have shown a strong tendency to use increasing amounts of information to inform their purchasing decisions. By delivering both quality information and convenient ways for the consumers to make purchases,

retailers can attract a greater number of high-potential consumers and convert a higher percentage of them into actual buyers. Retailers can retain these attractive customers by offering them a wealth of information-gathering alternatives and convenient ways for them to make the purchases.

Enhancing Brand Presence

Retailers that integrate their distribution channels generate a third type of value. Channel integration represents a powerful way to communicate to consumers that the direct and in-store channels are all part of one full-service retail brand. In effect, the “store” becomes bigger in the eyes of the consumer—encompassing catalogs, Web sites, and bricks-and-mortar buildings—and the brand appears more powerful. Such integration tells consumers that the brand offers an array of choices. And variety will become even more important in the future as consumers demonstrate their increasing diversity of tastes and styles.

The key to bringing more value to the retailer’s brand is not only in combining the disparate channels together into a single brand. There is synergistic value that comes from making the channels run smoothly together—the whole becomes bigger than the sum of the parts. A retail brand that promises options and choices that work together delivers added convenience to the consumer. Our focus groups revealed that consumers are quite diverse in the way they use channels. Shopping involves complex patterns of interaction that have potential customers touching three or four channels of a single retailer in the process of making a single purchase. It is thus crucial for the retailer to enable the consumer to bounce around the retailer’s channels without getting stuck. This requires channels to be integrated

Channel integration can bring a new level of convenience to the information-gathering experience.

to the point that moving among them is a seamless experience for the consumer.

Indeed, several of the executives we spoke with in the course of our research saw the concept of channel integration in this longer-term context. They viewed channel integration as a way to achieve longer-term, strategic goals and to enhance the retailer's brand equity. They used phrases such as "carry the message of the brand," "overall product message," and "long-term investment" to describe this function.

FUTURE INTEGRATION BENEFITS

To consumers and businesses, the value of a retail experience that happens smoothly across several channels is not difficult to see. The future opportunity lies in executing this vision and in making it happen in a way that looks and feels seamless to the consumer. This will enable established retailers' strong brands to generate incremental sales in their CD channels. By creatively integrating the electronic media into advertising and promotions, retailers can increase turnover in their bricks-and-mortar outlets as well.

The full promise of channel integration may take longer to arrive. But as retailers harness the power of the new media to deliver inexpensive but valuable services to the consumer, new revenue opportunities will emerge. By using the CD channels to deepen Learning Relationships with customers and to provide them with information, retailers are poised to increase revenues further. The real payoff will come when retailers find ways to improve profitability through these relationships.

One of the longer-term ways this may happen is for retailers to form alliances and partnerships with suppliers, and possibly even with other retailers, to provide customers with even higher value-added information-based services while staying within the bounds of consumer privacy concerns.

Making this happen, however, will not be easy. There are obstacles both organizationally and technologically that will make bringing this vision to reality a challenge, as we will see in the next chapter.

INTEGRATED CHANNELS: CHALLENGES AND BARRIERS

Although an integrated multichannel shopping experience brings significant benefits to both retailers and consumers, creating this experience will be neither inexpensive nor easy. Our research indicates that even the most innovative retailers face an array of barriers that will present a number of challenges along the way.

These barriers fall into two major categories. The first occurs in retail businesses themselves, and has to do with the way their organizations are structured. The second is a technology barrier, and involves the integration of information and communication systems across the whole company.

OVERCOMING ORGANIZATIONAL BARRIERS

Integrating sales and distribution channels into a single, comprehensive multi-channel offering conflicts with the hierarchies, divisions, and incentive mechanisms of most companies.

Retail Channels Acting as Independent Units

A major driver of this conflict is the way the various arms of a retail company are organized, managed, and rewarded. Most companies use the carrot-and-stick approach of internal competition, independent budgets, and profit-and-loss centers to motivate each sales arm. A division—for example, a group of stores in a region—that meets or surpasses its sales targets receives bonuses and a greater share of investment and company resources

the next year. Naturally, each division has an incentive to maximize its sales.

The advantage of this system is that, by dividing the firm into smaller pieces, the rewards are more closely correlated with the decisions and performance of individuals and smaller teams. This structure gives each individual a stronger incentive to contribute. A structure that rewards the whole company at once might encourage individuals to contribute less and to enjoy the rewards as “free-riders.” Although some firms have found ways to encourage and reward cross-departmental efforts, we have seen little evidence to indicate that these work.

Channel integration does not function well in this type of structure, as there is little incentive for one channel to pass on consumers (and their potential revenue) to another channel, even though the consumers

would be better served. Each channel wants to retain these consumers for itself and find ways to generate the most sales from them. As some respondents we interviewed put it:

We treat our online media as a separate entity, and they have their own marketing budget.

—Consumer electronics retailer

Our different channels are not really integrated. We have different brands and marketing programs [for each channel] that make them very hard to integrate.

—Department store

Fear of Cannibalization

This conflict among channels became very apparent when traditional retailers launched online versions of their stores. As online sales grew in the late 1990s, store managers began to fret about “cannibalization”—the idea that the online channel was merely shifting sales from traditional retail environments instead of generating its own. Managers whose compensation was based on the profitability of their store saw the online channel as a threat.

As we discussed in the previous chapter, however, quite a bit of evidence suggests that cannibalization does not actually occur, since consumers are more likely to use the online channel to support offline purchases rather than the other way around. This unfounded conflict was exacerbated by the market conditions at the time. In the second half of the 1990s, the equity markets were valuing online businesses at a much higher multiple than traditional retail businesses. For example, in mid-1999 the stock of Wal-Mart, the world’s

leading retailer, was trading at a multiple of 1.4 times sales, while Amazon, the leading online retailer, was trading at 11 times sales. To take advantage of these high multiples, large retailers set up their online sales channels as independent subsidiaries they eventually planned to spin off as independent, publicly traded entities. They would have been foolish not to.

WalMart.com and BlueLight.com, the online arm of Kmart, were set up this way (see sidebar, “Back into the Fold”). This type of relationship, and the desire to hit the jackpot, made the online entities of these stores more independent than they otherwise would have been. For this reason, the organizational challenges of channel integration became even more difficult.

The experiences of large retailers like Wal-Mart and Kmart, as they reintegrate their online businesses into their regular retail operations, are illuminating. These companies are focusing on the internal impacts of the integrations. That Kmart also replaced its online channel staff with merchandising and marketing staff from its regular operations indicates where it sees the value of the online channel—not in the IPO market, but rather in integration with its existing business.

Marketing Versus Sales, Versus Customer Service

Similar to the way that a retailer’s various sales channels might find themselves in conflict, a company’s departments often operate independently and are thus often in conflict as well—if not directly, at least indirectly. For example, the marketing, sales, and customer service functions often operate in a business silo with their own processes and databases. In this context, the conflict between functions is not so much over who makes the sales, but

Back into the Fold

Bluelight.com, the online wing of discount department store Kmart, was established in December 1999 (see Figure 4–1). Although majority-owned by Kmart, the business was spun off as a separate entity and partially funded by minority investors, including venture capitalists. The company was established in San Francisco, far away from company headquarters in Troy, Michigan, and closer to high-tech talent and the venture capital community. The intention was to take Bluelight public as its own company. Kmart’s strategy was especially bold, as it not only separated its business but also introduced a new retail brand, “Bluelight,” based on its “blue-light special,” the well-known in-store promotion that had recently been revived.

In July 2001, Kmart announced that it was buying out the minority owners and taking full control of Bluelight. Eventually, the online operation will likely be moved

back to company headquarters in Michigan, as it becomes more integrated into the corporate structure.

Similarly, Wal-Mart launched its online business, WalMart.com, in January 2000, as an independent entity with venture capitalists as minority investors. It also announced in July 2001 that it would take over full ownership of its online services and begin integrating them into its core business. Wal-Mart said it was doing this “to help establish the deepest integration possible between its online and offline programs.”

These significant changes are in part the result of a changing equity market for stand-alone online retailers. Market conditions suggest that the full value of these online operations will only be realized as they are integrated into the normal operations of large retailers. These companies are betting that the benefits of such efforts outweigh the costs of reorganizing, relocating, and rebranding.

Figure 4–1
Kmart and Wal-Mart Move to Integrate Their Once Independent Online Businesses



Source: www.bluelight.com; www.walmart.com

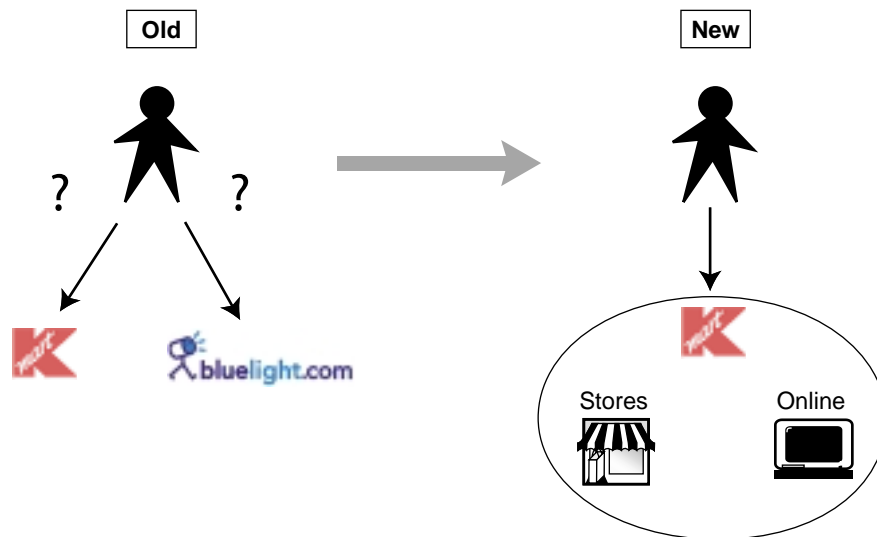
rather who owns the customer relationship; that is, who controls the flow of messages, communications, and interactions with that customer. The key conflict here is over the customer touch-points and the data collected from them.

These types of conflicts get to the core of how to value the various channels: as a platform for marketing, as the touch-point for customer feedback and enterprise learning, or as a transaction point. As we have demonstrated throughout this report, each CD channel acts as all three, as does the physical store. Because the structure of most organizations puts these functions in conflict, they must develop a new way of rewarding departments for the cross-channel sales and other cooperative ventures they have the potential to create.

Presenting a Single Face to the Customer

These organizational conflicts reveal not only internal inefficiencies but external ones as well. Retailers whose channels and functions still are not integrated have a difficult time presenting themselves to customers as a single full-service entity (see Figure 4–2). The fragmentation of the *Bluelight.com* brand represents an extreme example. But sales channels that are unaware of previous contacts by a customer with other parts of the enterprise reveal fragmentation as well. A customer who goes to a store to return an item she purchased online and is told she needs to mail it back to the company’s distribution system experiences this fragmentation—and the re-

Figure 4–2
Organizing Around a Single Brand



Source: Institute for the Future and Peppers and Rogers Group

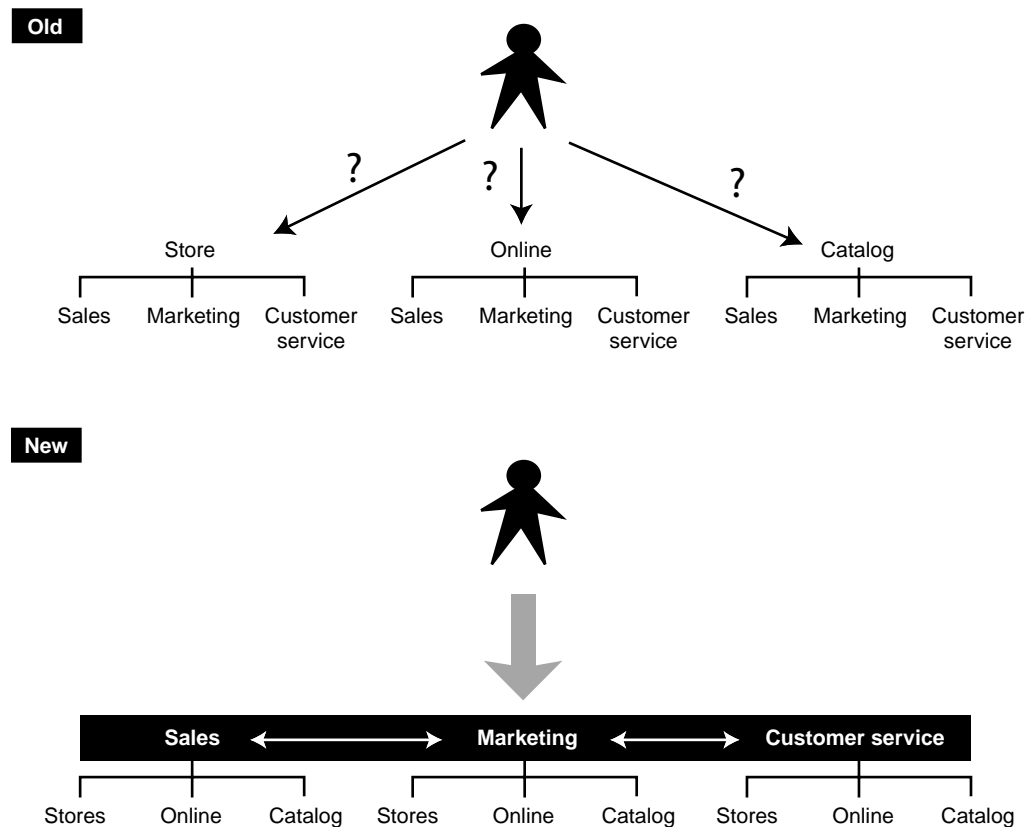
sulting frustration—firsthand. One retailer we interviewed acknowledged the importance of an integrated approach:

Our online organization operates independently of our stores, and they have their own marketing funds. But, over time, we learned that for some functions it makes sense to combine efforts and create greater interaction.

—Consumer products retailer

This comment is revealing because it highlights the need to enable customers to have easier and more interaction with the retailer as a whole. (We explore this need for interaction in more detail in Chapter 5, “Rethinking Channel Metrics.”) Better organizational structures, as well as integrated information systems, are required to present the consumer with a single brand offering a full range of options that work seamlessly together (see Figure 4–3 and sidebar, “Early Success Stories”).

Figure 4–3
Organizing for the Consumer



Source: Institute for the Future and Peppers and Rogers Group

Early Success Stories

Several leading retailers have begun to overcome organizational barriers and are having some success with a more integrated channel strategy.

Grocery Stores

Both Safeway and Albertson's are taking this more integrated approach as they reinvest in their own online channels for groceries. Having learned lessons from the failures of their pure-play rivals like Webvan and Streamline, as well as from the success of Tesco in the United Kingdom, these large chains are building their online channels by leveraging their existing competencies—well-known brands, neighborhood locations, and negotiating power with suppliers.

Tesco, a grocery retailer in the United Kingdom, has been the most successful online grocery retailer by far. It receives 70,000 orders per week, generating nearly half a billion dollars annually in online sales while making an undisclosed profit. Tesco was the pioneer in integrating distribution. Its breakthrough was

to use its existing retail stores as distribution centers rather than the large central warehouses other companies relied on.

In June, Safeway and Tesco agreed to a partnership for online grocery delivery in the United States. They will become joint investors in GroceryWorks.com, Safeway's online spin-off. Upon announcing the deal, the partners immediately shut down the GroceryWorks Web site, because their plan is to abandon the GroceryWorks brand and relaunch the site under the Safeway brand. Fully acknowledging the success of Tesco's integrated strategy, the new unit will deliver groceries from stores rather than central warehouses. Safeway will also use Tesco's in-store fulfillment technology, which consists of a large shopping cart divided into six sections with a small wireless screen that displays each customer's order. In a further sign of integration, Safeway will record income from the venture as revenue on its own income statement rather than as investment income.

In a similar effort, Albertson's has been using some of its retail stores as distribution centers in key test markets. Albertson's is also experimenting by empowering its workers with the technology they need to provide fast service. Stockroom clerks have wireless devices that display the details of an order. Using this device, the clerks then go through the store putting items into a large grocery cart. In this manner, an average \$100 order can be filled in 20 to 30 minutes.

Best Buy

Consumer electronics retailer Best Buy has reorganized its corporate structure to better integrate its channels and to present a single face to its customers. Best Buy used to be set up like a typical retailer, with marketing, procurement, inventory, and operations as independent departments. Acknowledging the difficulty of integrating channels in such an environment, the company has reorganized along product lines rather than functions. Best

Buy has set up cross-departmental teams to work on each product line—for example, a team for camcorders, another for televisions, and still another for vacuum cleaners. Each team consists of buyers, marketers, and operations managers who work together on a daily basis and share data and ideas from each of their functions to manage that product line. This restructuring has allowed Best Buy to more fully leverage its investments in information technology. Over the period of this reorganization, the company has doubled its inventory turns from four times a year five years ago to eight today.

These large retailers are going to considerable expense to integrate their various channels. And they are doing it on a variety of levels—they are integrating their brands, their operations, and their finances. Although there is much more to be done to present a single face to customers, these retailers are leading the way.

In most companies, customer data resides only in the channel in which it was first captured.

INTEGRATING INFORMATION SYSTEMS

The myriad information systems that have enabled retailers to reduce inventories and become more efficient players in the information economy of the 1990s present a second category of obstacles to channel integration. As retailers attempt to integrate their communications and distribution channels, they have to integrate their information systems as well.

Integrating information systems is not an insurmountable barrier. However, our research indicates that companies should not underestimate the expense, difficulty, and time involved in creating the links that allow data to flow quickly throughout the retailer's channels and supporting operations. Furthermore, the economic climate may continue to put pressure on retailers to realize returns on information technology investments much more quickly than in the past, putting added pressure on getting this type of integration right technologically and strategically.

Understanding That Customer Interaction Heightens the Need for Integration

Integrating channels both enables better service and introduces new challenges. Once consumers are told channels are integrated, they come to expect to be able to perform all sorts of interactive activities from any channel—gathering information, making purchases, and getting support and service. The potential benefit to retailers of offering this type of seamless technology is enormous, as a whole new range of interactions becomes possible. However, an endeavor like this is tremen-

dously complex. To fully realize its potential, retailers need to manage the complexity while at the same time making it appear easy and invisible to their customers.

Combining Information from Several Databases

The basic challenge with system integration is getting a collection of disparate databases and applications, which may be distributed throughout the organization, to exchange information quickly and easily, in standardized formats. One business we interviewed summed up this difficulty well:

We are not integrated. Our stores [each] have different databases and our online channel has another one. This goes back to our history, [it's] not by choice.

—Furniture retailer

Even though this respondent was referring to his own business, this explanation could be applied to a wide variety of companies struggling to integrate information systems across various channels. In most companies, customer data resides only in the channel in which it was first captured.

The complexity of integrating the databases that store and process information about their customers represents the most important barrier to integrating channels. In most cases, each customer channel is supported by an independent set of databases. Although queries can be written to compare information in one database with that in another, these are typically performed on an ad hoc basis to answer only specific questions. Real-time in-

formation sharing across databases is not yet a reality for most large companies. However, more sophisticated consumers are increasingly demanding access to detailed information quickly across multiple channels.

New technologies, such as mobile devices, put even more demands on a retailer's information flows. More often now, consumers are using mobile devices as part of the shopping experience. Retail employees are also using them to keep track of inventory and to provide better customer service. (For more on these devices, see the Consumer Direct report *Next-Generation Consumer Direct: The Evolution of Mobile Commerce*, 2001.)

To solve some of these problems, large systems integrators such as SAP and Oracle are using enterprise resource planning (ERP) software as the foundation upon which all the existing legacy systems within a company can be integrated. These systems standardize the data streams within a company so they can be shared and distributed quickly, easily, and automatically. These systems are not inexpensive, and implementing them is a significant endeavor that takes several months and involves almost all parts of the organization. But right now—and for the foreseeable future—ERP systems represent the best way for businesses to integrate their legacy systems and to make full use of the oceans of data they have collected.

Realizing That Inventory Knowledge Is Critical

Among the biggest information systems challenges for retailers is getting a handle on inventory. Indeed, getting inventory levels right is a key to the profitability of any retailer. Perhaps even more critical is the importance of

inventory to the consumer. Consumers need to be able to trust that the retailer will have the desired items in stock. Failure to do so kills the possibility of a sale and jeopardizes the retailer's future relationship with that consumer.

Getting inventory right in a given store is difficult enough. Electronic data interchange (EDI) systems that link with wholesalers have helped retailers keep products in stock while reducing the amount of surplus inventory in the store at any given time. However, the increasing complexity of the shopping process, coupled with the growing tendency of consumers to shop across channels, has put further demands on the flow of inventory information. Now, inventory information needs to come from more places, and travel to more places. And it needs to do it faster—in most cases, instantaneously.

One of the most difficult tasks in providing real-time inventory information to consumers and enabling them to make a purchase is letting them know whether or not an item is in stock. Whereas online channels query the inventory databases at their fulfillment centers, checking inventory availability within stores is usually more of a manual than an electronic process. And even for those stores that maintain an electronic record of inventory, keeping that record updated in real time means that point-of-sale systems need to communicate continuously with receiving and stockroom systems. Beyond these in-store issues, the real difficulty is in providing inventory information across channels—for example, when an online consumer wants to check the availability of products in a particular store.

Several of the retailers we spoke with—which have more advanced channel integra-

Inventory information needs to come from more places, and travel to more places. And it needs to do it faster—in most cases, instantaneously.

Retailers are making efforts to link the profiles customers create through online transactions with the purchase histories they create through in-store sales.

tion—acknowledged the difficulty of getting inventory right.

Our channels are not as integrated as we want. Right now we do not feel that our inventory is accurate.

—Consumer electronics retailer

Our channels are not very integrated, but we are very focused on that. Customers are not able to view store-specific inventory online. However, customers can use one of 3,500 [in-store] kiosks to view our online inventory.

—Discount department store

Currently, customers are not able to search for specific inventory of stores because our point-of-sales systems in stores are not integrated. We have tested an in-store kiosk, and we are looking at the results. Capturing orders in-store is an attractive proposition for us.

—Consumer products retailer

Customers can access our Web site from our stores, but not the other way around.

—Office supply retailer

The inventory challenge affects returns as well. As consumers come more and more to *expect* to be able to go to a store to return or exchange goods they bought online, retailers need to be able to accept these items, process them, and quickly add them to the store's inventory.

Combining Data with Customer Relationship Management Software

CRM systems provide the technological foundation upon which customer history can be tracked, consolidated, and managed. The best of these systems help retailers provide their customers with a positive and continuous relationship across channels. They are not, however, stand-alone systems. They require serious integration, both with ERP systems and existing legacy systems.

The retailers we interviewed have been somewhat more successful in linking their customer databases than they have been in integrating their inventory information. They are making efforts to link the profiles customers create through online transactions with the purchase histories they create through in-store sales. Retailers use several identifiers to link these records, including credit card numbers, loyalty card numbers, and e-mail addresses. Still, the quantity of information and the inconsistencies involved in consolidating this data remain a challenge. Several respondents mentioned using external CRM software, as well as strategic advice and planning from outside consultants, to do this.

These systems provide a crucial link to enabling the interaction-based, one-to-one shopping experience that will provide the greatest opportunities for retailers in the future. They also provide an important systems integration challenge.

Gaining Insight from Database Intelligence

Integrating information systems and sharing data are crucial functions, but not in and of themselves. Rather, to fully make use of this data requires not only exchanging it quickly but

also deriving knowledge, insights, and intelligence from it. This requires companies to make full use of data-mining tools. Relational databases, online analytical processing (OLAP), and multidimensional databases need to be applied to a much wider and richer dataset. Insights from this type of analysis will help retailers design future channel strategies, cross-channel promotions, and, crucially, communications at the level of the individual consumer.

Linking to the Supply Chain

Integrating these systems is not limited to the retailer alone. The full value of integration comes when channels are not only seamlessly linked to each other but to other players in the supply chain as well.

As the supply chain becomes increasingly web-like and infused with relationships, the demands for real-time data will increase significantly. Inventory levels need to be linked with wholesalers so that the consumer, who may initiate a purchase from any channel, does not encounter an “out of stock” experience. Combined, the increasing sophistication of the consumer and the increasing premium consumers place on convenience suggest that this sort of experience will not be tolerated for long.

Meeting this challenge will require cross-channel inventory data to flow from retailers to wholesalers and logistics companies, and back. As products become increasingly personalized, brand manufacturers will become involved in this information exchange as well. Internal integration is just the beginning. It is an essential basis on which the future of the linked supply chain will rest. (For more on the evolution of the supply chain, see the Consumer Direct report *Supply Chain Responses in a Consumer-Centric Marketplace*, 2001.)

Knowing the Impact of Technology on Space and Design

Jeffrey Huang of the Harvard Graduate School of Design believes that the integration of channels necessitates another type of reorganization. Companies need to rethink the way they use space to provide a seamless, interactive experience for the customer. In a recent article, he wrote, “By designing structures that meld the physical and the virtual, companies will be able to strengthen their relationships with customers and employees and foster loyal, enjoyable and humane communities.”

Huang describes this as “convergent architecture.” A retailer mentioned in one of our interviews seems to agree on the need to redesign the in-store space:

Our focus on new technology is in the IT and channel integration areas. We plan to have our different channels integrated in a seamless way. We plan to expand our kiosks. It's a way to leverage the retail space better.

—Discount department store

CONCLUSION: TOWARD CROSS-CHANNEL METRICS

Our research suggests that the challenges posed by conflicting organizational structures and disparate information systems are intertwined. Since the driver underlying the integration of both is the increasing importance of having information available instantly at any point in the organization, the systems need to be in place to allow information to flow easily, pervasively, and quickly. But the departments and people in the organi-

Companies need to rethink the way they use space to provide a seamless, interactive experience for the customer.

zation need to be willing—or perhaps even encouraged with incentives—to share this information. The technology systems are necessary but not sufficient to provide customers

with a seamless and interactive cross-channel experience. The metrics we discuss in the next chapter may shed some light on how these incentives might best be structured.

RETHINKING CHANNEL METRICS

With the growth of CD channels, measuring the effectiveness of each step in the shopping experience has become both more precise and more complicated. The wealth of data CD channels generate allows retailers to track customers and to evaluate points of contact at an unprecedented level of detail. However, as we have discussed throughout this report, these same channels are making the shopping experience more complex, and thus more difficult to understand.

Although companies are using the data to quantify the impacts of channel expenditures on sales, these traditional techniques are limited—they underestimate the complexity of the customer’s shopping experience across all the channels. In this chapter, we suggest ways to break down this complex process and focus on appropriate metrics for calculating return on investment (ROI) across multiple channels.

The goal is to set up a way of thinking about investments that truly measures the long-term financial performance of the firm across all its customer touch-points and enlightens strategic decisions. To this end, in the first half of the chapter, we discuss how companies that have made efforts to integrate their various distribution channels are measuring their returns. In the second half, we explore alternative metrics businesses can use to measure the effectiveness of their channels. Such metrics are

built on the notion that companies can do better in the long run by understanding how their customers use information and communications in different channels to shop for goods and services. Under this rubric, a company’s (or a division’s) success isn’t measured simply in dollars and cents, but rather in how well it builds a one-to-one Learning Relationship with customers that will bring revenue to the company for a long time to come.

MEASURING THE IMPACT OF THE ONLINE CHANNEL

The rapid expansion of the CD market, especially the growth of e-commerce, has raised critical issues about how to measure rates of ROI. The difficulty lies in the fact that, for most firms, an Internet site is a brand-new investment built entirely from scratch. There’s no precedent for measuring this type of investment.

Correlating Spending and Success

In their most basic form, the costs of a newly established Web site can be broken out by traditional measures: development (the cost of designing, building, and maintaining a new shopping site); advertising (the cost of targeted ads that encourage people to visit a Web site); shopping (the cost of maintaining a current list of available items that users can search for); transactions (the cost of receiving and processing payments); fulfillment (the cost of delivering the goods to the consumer); and service (the costs of returns, queries, and complaints).

Early on, the measurement of the relationship between spending and the success of a site seemed straightforward—companies spent money to drive people to the site. The effectiveness of advertising was reflected directly in the number of visitors. The site visitors were easy to count and responded directly to changes in advertising. Furthermore, any transactions that took place at that site could be traced directly back to the number of visitors. Thus, advertising or communication dollars spent on Web sites, as well as those spent on the mass media, seemed to have a direct impact on Web-based sales (see Figure 5–1).

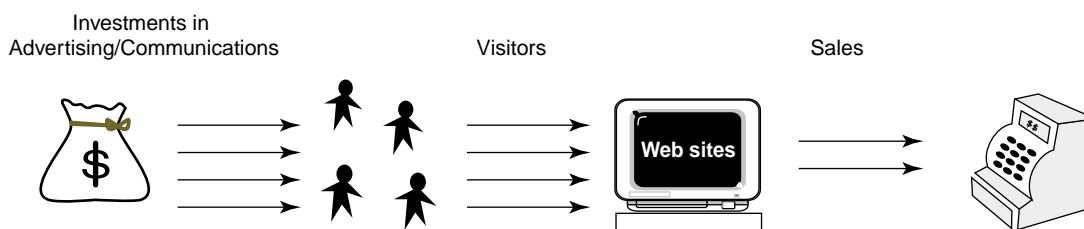
Tracking Visitors, Not Just Counting Them

Once they measured these costs and visitor “hits,” companies soon learned that numbers alone told them little about the quality of the hits—the likelihood that a hit would turn into a customer. So they expanded their focus to identify who was visiting these sites and what they did while they were there. They used their Web server logs to identify such factors as patterns of use, where visitors came from, and how long they stayed. Measures such as page views, minutes per session, and unique visitors now serve as important indicators of successful marketing campaigns. They stand alongside traditional media measures such as ratings and shares for television programming and radio time slots, circulation of a magazine or newspaper, reach, frequency, and gross ratings points (GRPs, the percentage of people who have seen a message, multiplied by the average number of times each of them has seen it). (see sidebar, “Do You Really Know Who Your Customers Are?”)

Holding Steady in the Early Stage

Most companies are in this early stage of evaluating their online channels. In June 2001,

Figure 5–1
A Simple Model for Measuring Return on Web Communications/Advertising Investment



Source: Institute for the Future and Peppers and Rogers Group

Do You Really Know Who Your Customers Are?

Companies use a wide variety of tools to track their customers. Indeed, most companies are inundated with data about their customers, but few are able to derive meaningful insights from the data. For example, there is currently a great deal of controversy about how to track Web site visitors. Two main instruments are generally accepted, each of which has its limitations:

- *Panels and surveys.* These are large enumeration studies that track total use of the Internet by age, occupation, and income, by asking the users how they utilize the Web. The advantage of this type of survey is that the retailers get a rich dataset with robust explanations of behaviors that may help them redesign the online shopping experience. They can get a sense of what users do on a site, how much time they spend there, where they come from, and where they go afterward. The disadvantage of this type of survey is that it is a statistically small sample when broken down by age and geography.

- *Server logs and cookies.* Server logs use the domain from which a particular user enters the site to identify the user and to build a history. This tracking method has a negative effect in that multiple users from the same domain are aggregated. The second method uses a cookie file installed by a Web site on a user's computer. With this cookie, the Web site can track when users return to the site and can build a history

for that cookie. The disadvantage of this method is that it is difficult to attach demographic information to that user, and some users consider cookies an invasion of privacy.

Companies can track catalog users by "source codes" and "customer numbers." By asking customers to reference the code printed on their catalog when they place their order, the company can gather information on which catalog triggered the order, how long after the mailing date the order was placed, and how that product's placement within the catalog affected the sale.

Similarly, companies can track store customers using loyalty cards or credit card numbers. By creating incentives for customers to use these cards, stores are able to collect data on an individual customer's purchasing patterns, preferences, and needs, as well as the effectiveness of different promotions.

While it is clear that many companies are sophisticated in their methods for tracking customers by channel, few are using tools that are effective in identifying individual customers and tracking their activities across all the channels. Ultimately, in order to derive value from the data, companies must know who their customers are on a one-to-one basis, by creating a holistic view of their interactions with individual customers.

Jupiter Media Metrix released the results of a study that found that only 15% of businesses that market online are doing any formal measurement of how these efforts affect their brands. Most, instead, use direct response metrics, such as number of hits. Although direct response metrics are providing retailers with some new insights, the complexity of the shopping experience suggests that these pure online measures are not sufficiently robust for a true understanding of what goes on in the CD channel.

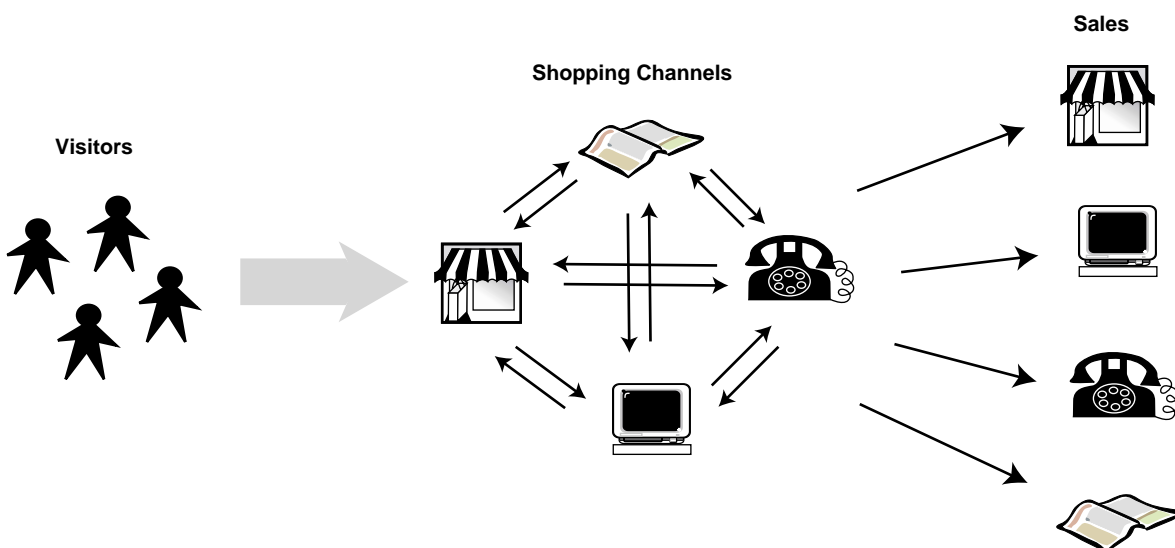
TRACKING ACROSS CHANNELS

Surveys that tracked consumers found variations in their patterns of behavior. These surveys revealed that very often visitors to Web sites were not staying in a single

channel for the whole shopping experience. A visitor to a Web site may have zeroed in on a single item—perhaps one he was buying as a replacement or one he had already found in a catalog. Alternatively, he may have gone to a store to see the product before buying it; or the pattern might have been the reverse, whereby store or catalog shoppers identified a product they were interested in and then went to a Web site to find the lowest price. With consumers using multiple sites as well as channels, it becomes very hard to apportion the value of the final sales among the dollars spent on advertising, communicating through different information sources, or interacting at different customer touch-points (see Figure 5–2).

One of the key learnings about operating on the Web is that CD channels are not a separate market that can be monitored and measured in

Figure 5–2
Consumers Tend to Visit a Number of Sites Before Making a Purchase



Source: Institute for the Future and Peppers and Rogers Group

isolation. Any ROI analysis must grapple with this very complex issue of cross-channel use. The more innovative retailers have begun assembling metrics to evaluate their retail channels and the value of the synergies of integrating them. They are also beginning to make resource allocation decisions based on this analysis.

To get a better understanding of how these new metrics are working, we interviewed executives from a group of multichannel retailers and service companies. Of the ten companies we interviewed, eight had moved beyond simply measuring clicks and visitors and were using more formal metrics to calculate ROI across channels. These interviews gave us some insight into how the most innovative large companies are measuring the value of various channels today.

Revenue-Based Metrics

The interviewees indicated that the purpose of their new metrics is to evaluate the effectiveness of their channels in increasing overall revenue. Specifically, they look at the impact of various programs and promotions on sales across channels. This is still a fairly traditional approach. The innovation lies in trying to measure how an activity in one channel might affect revenue in another.

Currently, some of the most effective ways of measuring revenue across channels include the following:

- *Customer tracking.* Credit card tracking and loyalty programs provide a unique customer identifier across channels that allows retailers to track the behavior of individual customers both online and offline.
- *Promotions and advertising campaigns.* Although a traditional method, analyzing changes in sales during a particular promotion or ad

campaign gives a good indication of whether promotions in one channel affect sales in another. This strategy includes such measures as comparing the size of direct mail and Web site promotions to the level of in-store sales.

- *Personalized promotions.* Promotions such as online coupons and one-to-one e-mails provide retailers with several levels of information and a way to gauge the effectiveness of online campaigns on in-store sales. For example, one retailer promotes in-store coupons on its Web sites. This allows the store to find out how many customers look at the coupons, how many download them, and how many eventually redeem them.

Early Successes ...

One of the respondents, an apparel retailer, is making significant progress with cross-channel metrics. He reported using channel metrics to calculate ROI in each channel to determine resource allocation across channels.

We always look at return on investment. We look at the amount we spent on an initiative and what the return is. We can track purchases across channels.

—Apparel retailer

Relying on these metrics, this company shifted resources away from its catalog business into its Internet business as it saw the effectiveness of its online channel rising.

... But Limited

However, these early successes in measuring the impacts of channel synergies have been limited. For one thing, the revenue-based metrics these companies have borrowed from

The more innovative retailers have begun assembling metrics to evaluate their retail channels and the value of the synergies of integrating them.

traditional media and advertising don't seem to work as well in the complex world of multichannel shopping. Controlling for the impact of external events becomes significantly more complicated when the shopping experience occurs over time and involves several points of contact. As a result, the ROI calculations companies come up with are generally described as estimates, qualified by statements such as "we think," or bounded by wide ranges that make the numbers all but unusable, such as "from 2% to 50%."

The complexity of the multichannel shopping experience today renders any direct causal links between expenditure and sales suspect. In the future, a more useful set of metrics will emerge that will break down the shopping process and measure the effectiveness of each channel in supporting not just the revenue generated but the complex patterns of interactions (that is, of customer relationships) that increasingly determine the outcomes of multichannel shopping.

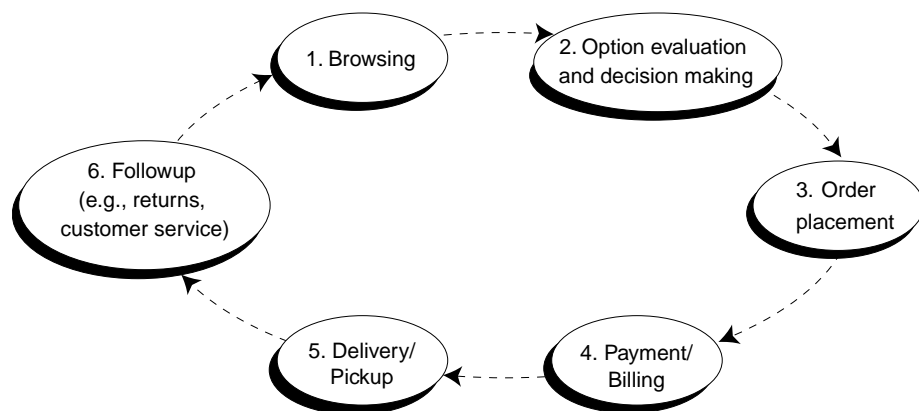
SEEING THE WORLD FROM THE CONSUMER'S VIEWPOINT

One way of thinking about the effectiveness of a channel—and thus of coming up with a metric to measure that success—is to approach it from the perspective of the consumer. After all, it is the consumers who are doing the searching and crossing of channels. What does CD shopping look like from their perspective?

The key is how consumers use information as they move through the purchasing cycle (see Figure 5–3).

For a routine repurchase or a simple decision to try something new, the cycle will be straightforward. But for other, more complex purchases, it may involve a complicated process of gathering information across a broad range of different sources and channels. If we try to track the consumer moving among communication and information sources, we might see a complex diagram that sometimes crosses one or two sources, and sometimes five or ten.

Figure 5–3
The Purchasing Cycle



Source: Institute for the Future and Peppers and Rogers Group

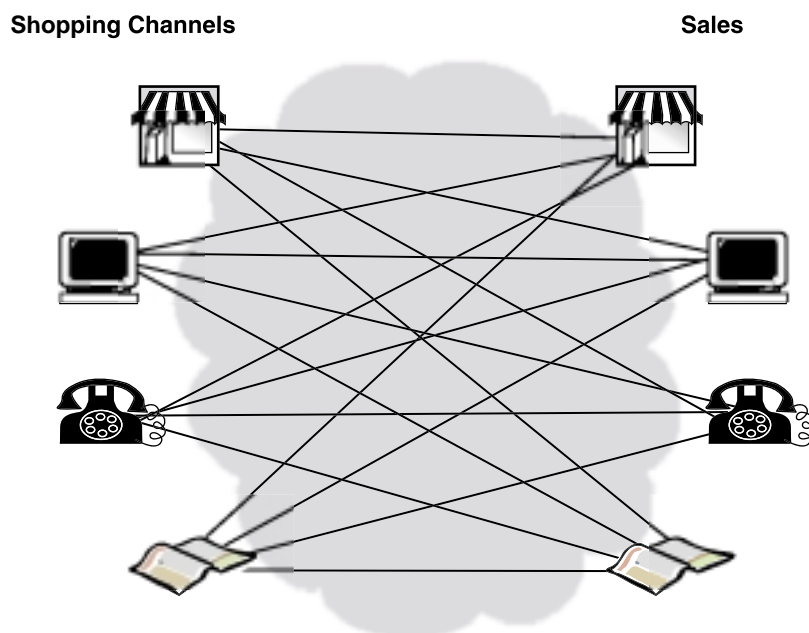
The final outcome will be a purchase, but it will not be self-evident what value the consumer put on each piece of information encountered in the process (see Figure 5-4).

We don't quite know what goes on within the cloud at the center of the diagram—each shopping experience will be a little different. But we do know that once the first bit of information begins the shopping process, each subsequent piece of information becomes increasingly important in determining the outcome, and that the final sale can be driven by the quality and relevance of the information the seeker finds all along the chain.

Thus, it is important for businesses to distinguish the goals and efficacy of each point of

contact with the consumer—each category of spending. Businesses then must provide the necessary support for each category according to its strategic value. They can do so only if they are armed with innovative new metrics that not only measure traditional data like revenue but also the way the different channels work together to move a consumer toward making an actual purchase. In other words, even if one channel's contact with the consumer doesn't end in a sale, that channel has still performed an important function if it sends the consumer along to a different channel in the company. Under these new metrics, it will be rewarded for that.

Figure 5-4
A More Complex Real World: Consumers Wend Their Way Through the Shopping Channels



Source: Institute for the Future and Peppers and Rogers Group

Businesses need to move beyond thinking of a sale as the final metric and consider the long-term value of their relationships with customers.

FINDING OPPORTUNITIES FOR A STRATEGIC APPROACH TO RETURN ON INVESTMENT

In order to make sense of this cloud of complexity, businesses need to rethink the way they use and measure their channels. Businesses need to move beyond thinking of a sale as the final metric and consider the long-term value of their relationships with customers. They also need to understand the interactions among channels and evaluate how each channel supports the others in acquiring customers and encouraging fickle consumers to enter relationships. Finally, businesses need to deepen their relationships with their customers—especially their most valuable ones. To do so, businesses will build mutually beneficial, one-to-one Learning Relationships with each customer.

*Table 5–1
Components of Customer Acquisition Strategy*

- Initial customer acquisition cost
- Tracking consumers
- Collecting feedback about an individual consumer's needs and value
- Sending focused and personalized messages to the consumer
- Building the possibility of an interaction
- Delivering value to a customer through interaction
- Providing relevant information through various channels, including at the point of sale

Source: Institute for the Future and Peppers and Rogers Group

From Transactions to Long-Term Relationships

It is only by first understanding how companies acquire and retain consumers for the long term that we can measure any channel's contribution to the bottom line. Assembling meaningful channel metrics from the consumer perspective requires a redefinition of successful outcomes. Companies need to move beyond thinking of the next transaction—the sale—as the ultimate measure of success and begin to take a more comprehensive and longer-term view.

First, how does a company increase the long-term value of a consumer? In three steps: (1) by attracting the interest of the consumer; (2) by eliciting feedback from the consumer; and (3) by using information from that consumer to keep that individual as a customer (see Table 5–1). Each of these is a discrete step in communicating with consumers, and each of these also builds on the others. Each offers opportunities for the company and has specific goals that can be measured and evaluated. The ability to coordinate these steps and to develop measures that track the value of the message or a communication with the consumer at a given stage is critical to success. This requires a reassessment of the way customers interact with channels and the way channels interact with each other.

The transition away from transaction-oriented metrics and toward a relationship-based methodology such as this requires a two-stage approach. First, businesses need to reorient their customer acquisition strategies toward the idea of getting consumers to enter into relationships rather than simply make purchases. Second, once consumers have entered into a relationship with the business, and have moved from being strangers to being recog-

nizable customers, businesses need to deepen these relationships by understanding the needs of these customers, and then tailoring their offerings to provide for those needs. To determine the success of this tactic, businesses have to be able to measure how well the company builds these relationships and how the value of an individual customer changes over time.

From Stranger to Customer

Customers begin as total strangers—unknown to a company. Once a consumer asks for more information, or makes an inquiry, she identifies herself as a customer. In order to get their customers to move into deeper, more valuable relationships, businesses first need to acquire customers with the highest potential value to the firm and learn enough about some-time customers to help them become regular customers. This requires businesses to optimize the effect of each communication chan-

nel. It also necessitates an understanding of the complex interactions among channels. Once these are fairly well understood, businesses must be able to measure the success of investments and new spending across channels. Such measures are hard to make in a world where consumers are gathering information from a variety of channels in a complex decision-making path. However, this very complexity opens the door to strategically rethinking the connections among all aspects of the firm's customer touch-points.

Valuing the Communication Roles of Channels

From a firm's point of view, there are four key steps in communicating with consumers: advertising, marketing, customer service, and sales (see Table 5–2). Each of these steps requires a deeper engagement with the consumer that will lead to a better understanding of the product or

Table 5–2
A Business Perspective on Consumer Communication: Four Key Roles

<i>Communication Roles</i>	<i>Channels</i>	<i>Measures</i>
Advertising: Brand building, product introduction, identifying potential customers	Mass media, ads	Hits, gross rating points.
Marketing: Providing targeted information	Stores, Web, catalog, magazines, news	References, cross-channel browsing, length of time spent (e.g. number of web pages browsed).
Customer Service: Interactive engagement	Stores, Web, phones, mail	Interactions with consumers, data collected.
Sales: Transactional exchange	Stores, Web, catalogs, mail	Long-term value of the customer.

Source: Institute for the Future

service on the part of the consumer, and a better understanding of the consumer on the part of the business. Each step will contribute to enhancing the long-term value of that customer. The channel mix that will be most effective in supporting each communication role will vary considerably. This will require companies to think carefully about how they allocate their resources among channels.

Understanding Interdependent Roles

The four levels of engagement suggest some interesting conclusions. Each of the roles is discrete with different purposes and goals, which can be measured separately. Each of the roles may have very different effects, depending on whether the firm’s goal is to create a new customer or to retain or service an existing one. None of the roles is complete in itself, but all roles are essential to building an effective customer relationship, and ultimately sustaining a company

that sells products and nurtures brands. Despite their differences, each of the roles will be interconnected and mutually interdependent.

Ultimately, each role is driving toward the same goals—understanding the needs of the customers and enhancing their long-term customer value. In assessing the value of each level of engagement, each channel will receive some credit for enhancing customer value, or full credit for a change in value associated with a particular communication strategy with a customer. Yet seldom will any one channel ever be completely sufficient on its own.

Tracking Interdependencies

To understand the roles of all of these levels of engagement, businesses will have to measure in some fashion their impact on the other roles. A strategic investment in any of the roles will have to measure its impact not just on sales but also on encouraging consumers into deeper

Table 5–3
Measuring the Impact of Deeper Engagement

<i>Communication Roles</i>	<i>Measures of Cost</i>	<i>Measures of Value</i>
Advertising: Brand building, product introduction	Dollars per impression	Appearances and references on other sites and in other channels.
Marketing: Providing targeted information	Dollars per item	Response rates, additional information requests, or information collected from the consumer.
Customer Service: Interactive engagement	Dollars per interaction	Sales opportunity, dialogue with an interested consumer, feedback from the consumer, complaints satisfactorily resolved.
Sales: Transactional exchanges	Dollars per transaction	Sales and likelihood of future sales (product on hand; needs information collected; efficient delivery; efficient payment system).

Source: Institute for the Future and Peppers and Rogers Group

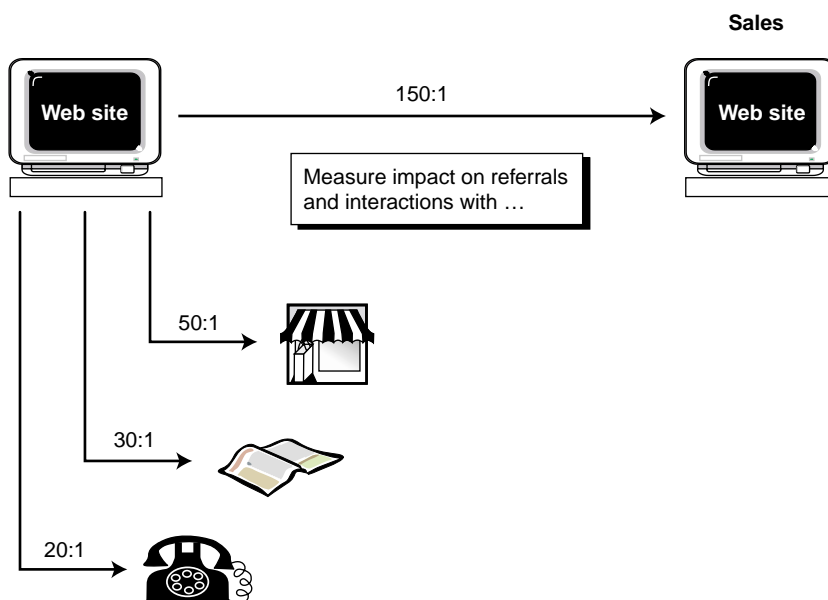
engagement and longer-term relationships with the company. While CD channels could enable a sale of a product or a service after any single communication opportunity, there have to be interim measures of customer value that capture the success in encouraging a customer's deeper engagement, regardless of the sale (see Table 5-3). These may include measures that reveal an increase in the probability of consumer profitability, such as indicators that consumers are browsing more frequently or are browsing among higher-margin items, as depicted in the table.

Moving Toward a Deeper Engagement

As customers progress from level to level, they move into deeper engagement and become active participants in a Learning Relationship. Ultimately, valuable customers will

become engaged in a Learning Relationship when a company learns more about that customer's needs and responds by meeting those needs better than competitors who don't know as much about that customer. For each level, a company will have established a ratio of visitors to customers who buy, return to browse, make an inquiry, or display any other indicators that they intend to continue and strengthen the relationship. Thus, a Web site that introduces a product might lead a certain share of visitors to visit or browse other sites. Say, for every 150 who visit a Web site, one will actually purchase something online; but for every 50 visitors, one will look at a product seen on the Web at a store; for every 30, one will look at the same product in a catalog; for every 20, one will call the company for more information, and so on (see Figure 5-5).

Figure 5-5
A Starting Point: Measuring Success at Each Level of Deeper Engagement



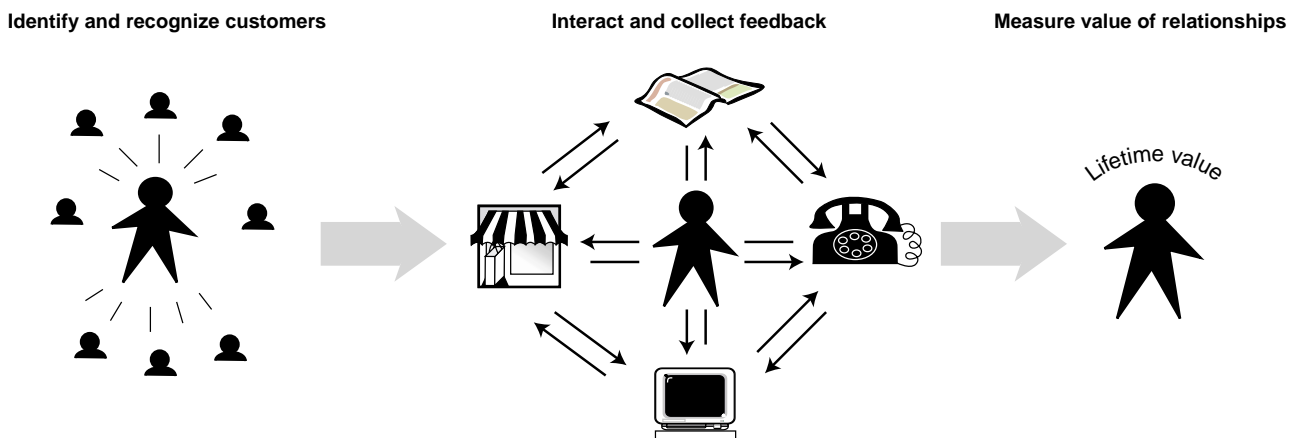
Source: Institute for the Future and Peppers and Rogers Group

These ratios may allow a company to get a better understanding of the effectiveness of its communications strategy—not just what sales result directly from a given activity, but what patterns of behavior result that allow a second or a third chance to interact with the consumer and let her learn about a product. Knowing the ratio of visitors or users of other sites to future customer value provides a way of apportioning the value of a referral to that site. In addition, gathering feedback from customers allows a firm to understand the needs of their customers and also determine which customers will be most valuable in the future. Furthermore, focusing on the full value of a channel in sales, in references, and in quality interactions can allow firms to invest strategically in improving the relationship-deepening value of key customer touch-points.

Toward One-to-One Learning Relationships

Once a consumer actually identifies herself, she becomes a customer. And once a firm recognizes that customer, a company can begin building on the experiences used to win that customer and track its direct relationship with her. It also requires a shift in the types of metrics that will best measure a business's performance. With integrated channels and the optimal allocation of resources across channels, businesses can begin to communicate with customers individually in a way that maximizes the long-term value of each. This approach requires the creation, maintenance, and deepening of relationships with customers. In short, it requires a transition away from mass-media campaigns toward one-to-one communication strategies carried out across multiple channels (see Figure 5–6).

Figure 5–6
The Next Step: Measuring Success One Customer at a Time



Source: Institute for the Future and Peppers and Rogers Group

Leveraging Customer Interaction

Customer feedback is the sum of every interaction the customer has had with the retailer. These interactions might include information derived from browsing, customer service inquiries, and purchases. Thus, the more interactions a business has with a customer, the more the business learns; and as a result, the better service it can provide. The interactions we discuss above are critical in deepening the retailer's understanding of each customer. This feedback loop is particularly rich for mass-market consumer products, since the frequency of purchase is high and the data collected can be more accurate than that of occasional purchases. The ability of the company to track these interactions will go a long way toward determining how well they can allocate their spending among channels.

By identifying individual customers and building an understanding of their needs, businesses can begin differentiating their customers. First, they can differentiate customers by value, determining which customers are high-frequency shoppers, or which buy high-margin items. Then they can differentiate customers by their needs, identifying which customers buy branded products, which are brand loyal, and which are experimenters. They can calculate the long-term value of each customer and decide which customers might be especially receptive to value-added services and special offers.

One-to-One Metrics: Calculating the Lifetime Value of a Customer

The most effective way to think about and measure these deepening relationships is in terms of the future value of that customer. The concept of "lifetime value of a customer" takes

into account the expected future profit streams associated with each customer. This measure incorporates not just an impending sale but also includes the expected future costs and benefits of retaining that customer (see Table 5–4).

For example, in assessing the value of that customer, we would evaluate not just how big the last purchase was and when it took place, but we would also look at what we expect their future purchases to be. To make these kinds of projections, we would look at how often they make purchases, what types of items they buy, how often they refer others, how big a role the company plays in that consumer's overall purchasing decisions, and so forth. We would then calculate the stream of future purchases we would expect based on the probabilities of their continuing as customers. Analytical software applications can mine the wealth of consumer data a business has collected to determine these probabilities and values. Many CRM software packages are now incorporating these analytics into their customer service functions.

Table 5–4
Factors Determining Customer Value

- Initial customer acquisition cost
- Fixed and variable costs of servicing that customer
- Profits from sales of products across all divisions, channels, and operating units
- Profit from sales of continuing services
- Profit from referrals of other customers
- Likelihood and magnitude of volume growth or increased profits
- Predictors of loyalty or attrition

Source: Don Peppers, Martha Rogers, and Bob Dorf, *The One to One Fieldbook*, 1999.

In the future, effective measurements that will help manage customer value will include such indicators as share of customer, lifetime value, projected retention rate, strategic or potential value, and return on data assets. Moving forward, companies must begin to look at predictive measures that enable them to identify *potential* high-value customers. For example, a predictive measure might be an assessment of a customer's willingness to collaborate with a company, perhaps by measuring her responsiveness to communications, the frequency that she wants to receive communications, or placing a value on the different types of personal information the customer shares. These measures are highly dependent on a firm's ability to move customers to a deeper level of engagement, to gather direct feedback from that customer, and to begin to understand that customer's particular needs.

These new metrics affect the way that businesses evaluate their channels as well as the way they view their customers. To improve the components of the customer value formula, companies need to understand their customers' needs and begin to tailor their operations to meet these needs. In this way, they can enhance the lifetime value of all of their customers.

CONCLUSION: THE NEW METRICS FOR ENHANCING LONG-TERM CUSTOMER VALUE

Combining knowledge of the needs of their customers with knowledge of what drives these customers to deeper engagement will give firms a better sense of ROI, and thus the strategic insights they need to make effective decisions about resource allocation among their different channels. Investment dollars should be apportioned not on the basis of media hits or final sales, but rather on the value of the channel to their most valuable customers. Companies need to determine who their best customers are and understand the needs and preferences of each customer in this group. By aggregating the preferences of the most valuable customers, companies can decide where to invest. Resources should be allocated according to which channels are the best at producing interactive engagement, Learning Relationships, and long-term value.

As we have discussed in this chapter, using channels intelligently requires a two-pronged approach. Making full use of all channels—including online sites, catalogs, and stores—for communication as well as sales is necessary to encourage new customers to enter into a deeper engagement with a company. These

channels are also important for addressing the fickle yet potentially lucrative experimenters who tend to hop from brand to brand. Once customers begin to provide information and feedback and increase the frequency of their purchases, they become active participants in building an effective one-to-one Learning Relationship. As such, their lifetime value increases, and they may become eager recipi-

ents of tailored communications, services, and, down the road, perhaps even customized products. The key to tapping into the lifetime value as well as the future, potential value of a customer is in establishing a metric that goes beyond merely recording hits and dollars, to a metric that tracks the ways customers actually use CD channels and calculates ROI based on those measurements.

