

Multi-Channel Retailing in B2C E-Commerce

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INTRODUCTION

The Internet is not only a significant communication medium, it is also largely used as a channel of distribution. In the very beginning of the e-commerce era, most researchers and practitioners forecasted a sharp increase in Internet-based commercial applications, leading to a threat of existing business models. Already in 1980, Rosenberg and Hirschmann argued that in-home shopping could threaten store-based retailing, as consumers would tend to choose among a larger amount of competing retail formats. Early investigations by Moschis, Goldstucker, and Stanley (1985) revealed crucial conditions that can influence success of online marketing instruments. The conceptual work by Alba et al. (1997) provides basic implications of electronic shopping for consumers as well as for the supply chain and helps understanding key issues in Internet-based shopping. In contrast to the mainly positive discussions on the emerging e-commerce, George (1987) found significant obstacles to non-store retail formats and stated an uncertain future for Internet-based business.

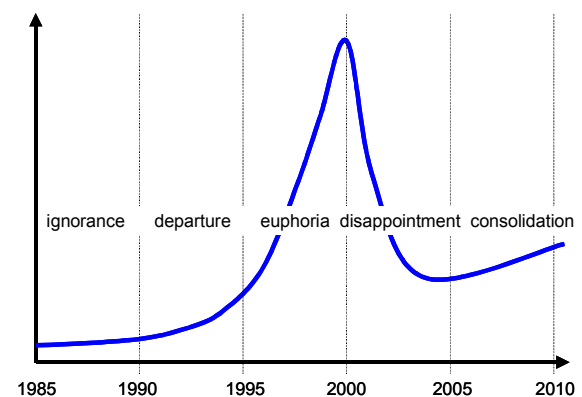
The actual development of online shopping supported George's (1987) assumptions. In the late 1990s, the number of online shops as well as venture capital for them increased sharply. A few years later, many online shops broke down, mainly due to ignorance of business administration fundamentals. One of the most well-known examples is the U.S.-based online grocery retailer Webvan, which wanted to build a nationwide network of food distribution centers in order to replace supermarket shopping. Webvan's collapse was mainly caused by its misalignment between marketing and operations strategies (Delaney-Klinger, Boyer, & Frohlich, 2003). The large number of similar bankruptcies led to skepticism on e-commerce in general and a broad refusal of any e-commerce-related business activities. But with increasing particularity of e-commerce research and practice, this business area is supposed to recover and show growth again, although to a smaller extent than during the "hype." This development is depicted in Figure 1.

One important business area of e-commerce is the business-to-consumer (B2C) sector—that is, using the Internet as a channel of distribution towards consumers. Firms that run B2C online shops are regarded as retailers.

In the e-commerce world, one type of retailer proved to be most successful: retailers that use the Internet as an additional channel of distribution, supplementing their network of physical stores. These so-called multi-channel retailers account for a large portion of e-commerce sales. In the U.S., they achieved 72% of online sales in 2002. They also show a higher profitability compared to retailers that operate solely on the Internet (dot-coms). Eighty percent of retailers that operate online shops and stores were profitable in 2002. In contrast, only 50% of the dot-coms were profitable (Haeberle, 2003).

This raises the question of which mechanisms enable a multi-channel retailer to achieve benefits that are not applicable to dot-coms. In order to understand the fundamentals of multi-channel retailing, a discussion on electronic retailing as a retail format and the main characteristics of multi-channel and dot-com retailing is provided. Starting from these considerations, this article presents benefits that arise from a multi-channel strategy and provides an overview for practitioners who want to assess their own as well as their competitors' opportunities and risks in electronic retailing. The conceptual findings are illustrated by examples of successful multi-channel retailers in practice. Finally, a short outlook on future developments is provided.

Figure 1. Expectations on e-commerce business models (Hansen & Neumann, 2005)



BACKGROUND

Any retailer acts as an intermediary and fulfills a number of different functions that are beneficial to consumers as well as to manufacturers. Their main contribution for consumers is bundling assortments of different suppliers and offering them in an appealing way to consumers. In practice, there exists a number of different, industry-specific retail formats (Levy & Weitz, 1992; Berman & Evans, 2001; Gilbert, 1999). On an aggregate level, retailers can be differentiated between store-based, mobile, and remote retail types, with a wide range of retail formats within these types. They show various assortment structures, price levels, and store- (or Web site) related particularities. Store-based and non-store-based retailers differ most from each other (Burton, 2000).

Internet-based retailing is referred to as electronic retailing or e-tailing (Yao & Liu, 2005; Lee, Katerattanakul, & Hong, 2005; Wilde, Kelly, & Scott, 2004; Carter & Sheehan, 2003) and is regarded as the part of B2C e-commerce dedicated to selling and buying goods (Madlberger, 2004). E-tailing fulfills the same functions as classical retailing, although performance and requirements of certain functions differ from store-based retailing (e.g., distribution, product presentation).

E-tailing can be operated as the sole channel of distribution. Such retailers are referred to as dot-coms (Razi & Tarn, 2004; Xing, Tang, & Yang, 2004) or, as expressed chiefly among practitioners, pure players (Janoff, 2001). If a retailer operates one or several other channels of distribution besides the e-tailing activity, it is denoted as a multi-channel retailer (Reynolds, 2002; Berman & Thelen, 2004; Webb, 2002; Schoenbachler & Gordon, 2002; Balabanis & Reynolds, 2001; Madlberger, 2004). A synonym is “bricks and clicks”. In the following, synergies of multi-channel retailing are discussed.

SYNERGIES OF MULTI-CHANNEL RETAILING

Multi-channel retailing exists for several reasons. According to Moriarty and Moran (1990), retailers often run multiple channels because they add channels incrementally in order to expand their businesses. Academic literature has extensively investigated business models of multi-channel retailing (Webb, 2002; Schoenbachler & Gordon, 2002; Balabanis & Reynolds, 2001) and analyzed the chances and risks of this strategy. One key issue in multi-channel research is customer’s channel choice. Early research in this field focused on channel choice between direct and retail store-based channels (Balasubramanian, 1998; Alba et al., 1997). With increas-

ing relevance of e-commerce and Web-based distribution channels, more intensive research was performed on channel choice and attitudes toward a multi-channel retailer’s Web site.

Empirical research has shown that consumers do not automatically switch from one channel to another. In fact, in many cases they would rather stick to existing stores and reject online presences, or use the Internet only as a source of information, but not for purchasing (Kaufman-Scarborough & Lindquist, 2002). A well-integrated multi-channel retail strategy is characterized by cross-channel promotions, consistent product assortments, an information system that supports both channels, and a high degree of channel integration in logistics (Berman & Thelen, 2004). Multiple channels are also an appropriate means of enhancing customer loyalty (Wallace, Giese, & Johnson, 2004). Attitude toward the existing distribution channels and time spent browsing the Web site are the most important influencing factors on attitude toward a multi-channel retailer’s online shop (Balabanis & Reynolds, 2001). Multiple channels are associated with higher sales performance but lower channel profitability (Coelho, Easingwood, & Coelho, 2002). Conceptual work on antecedents of channel choice suggested to include perceived risk, past direct marketing experiences, motivation to buy from a channel, the product category, and Web site design into a causal model (Schoenbachler & Gordon, 2002).

Due to the recent emergence of e-commerce, there is one fundamental difference between multi-channel retailers and dot-coms. As dot-coms are directly resulting from the commercial use of the Internet, they are by nature recently established firms with little experience. In contrast, multi-channel retailers have gained knowledge on markets, products, and customers over time, which leads to a competitive advantage vis-à-vis the dot-coms.

In addition, there are several areas in which a multi-channel retailer can obtain synergies (Friedman & Furey, 1999). According to Steinfield, Bouwman, and Adelaar (2002), a multi-channel retailer can obtain four types of synergies: lower costs, differentiation through value-added services, improved trust, and product market extension.

Costs can be decreased in the areas of labor, inventory, and delivery costs (Steinfield et al., 2002), but also in marketing and advertising (Krishnamurthy, 2003). A multi-channel retailer has already established a store brand that is well known by the consumers. Labor costs can be reduced for routine and administrative processes like looking up product information, filling out forms, or online technical assistance. In distribution, a physical outlet can be used as a pick-up point for online orders and contribute to cost savings. Compared with dot-coms, the existing inventory infrastructure and vehicle fleet of a

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