Retailers' adoption of multiple channels for transaction: The interplay of innovation, market orientation and organisational capabilities

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Abstract

Over the past several years, the availability and uptake of multiple retail channels has received increased attention within industry and academia as synergies between channels are realised by retailers and consumers alike. However, multichannel retailing is relatively young in the Australian market, and significant opportunities lie ahead for organisations that can identify and exploit their channel mix – in particular, the optimal "bricks and clicks" balance. The Internet is arguably one of the most critical marketing, communication and transaction channels in retailing today in that it impacts consumers' offline behaviour. Yet online retail is in its infancy in Australia, representing only 3% of total domestic retail revenue which is, in turn, driving 43% of online Australian consumer dollars to international online retailers. A total of 21 in-depth individual interviews were conducted with marketing directors and senior executives of leading Australian retail organisations. We found three major themes leading to adoption of multiple channels for transacting, being: organisational innovation, market orientation and organisational capabilities.

Keywords: multichannel, retailing

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Introduction

"The reality these days is that people's media habits are diverse and there are many different touch points and you need to ensure that you're not just concentrating on one touch-point. You have to hit consumers on a number of different levels, at a number of different levels, across a number of different touch-points"
[Interviewee: National liquor chain]

As is demonstrated in the above passage, engaging consumers across multiple channels is increasingly important in today's retail landscape. Over the past several years, the availability and uptake of multiple retail channels has received increased attention within industry and academia as synergies between channels are realised by retailers and consumers alike (McGoldrick and Collins, 2007). As a result, multichannel retailing is becoming a standard approach to engaging consumers. This has largely been facilitated by success in the online channel (cf. Sands, Ferraro and Luxton, 2010). At its core, multichannel retailing offers the retailer more than one way to interact with a consumer, and for a consumer, it offers more than one way to interact with the retailer, providing broader convenience and service (Olafson, 2001).

Transacting through more than one channel has become commonplace for many retailers, with more than 80% of US retailers offering multichannel transactional capabilities in 2007 (Lovett and Anand, 2007). This growth has been driven over the past decade by the Internet, which continues to grow at a rate that outpaces traditional retail channels (Razak, Ilias, and Rahman, 2009) up to four to five times faster (Gross 2008). In 2008, Australian annual growth for online sales increased by 5% (compared to 11% in the US), reaching $23 billion (Forrester, 2009). While Australian sales growth is below more developed markets, so too is the channel's proportion of revenue (3% in Australia compared to 8% in the UK and US) within the retail sector (Trewern, 2009). Another significant statistic for Australian retailers is the loss of potential revenue going to overseas retailers who ship to Australia, which is reported to be 43% of Australian online consumer spend (APCA, 2009). With this research, we set out to investigate retailers' perceived multichannel opportunities and barriers in order to better understand the multichannel environment within Australia. In the following section, we present a brief summary of the methodology and then focus our discussion on the findings, identifying key drivers of multichannel adoption and presenting a hypothesised model of adoption. We conclude the paper with a discussion of the key findings and suggestions for future research.

Methodology

Given the primary purpose of the research was to investigate the channel adoption of Australian retailers, we undertook an exploratory and qualitative enquiry. In-depth interviews were deemed best suited to exploring and capturing the perspectives of retail marketing directors and senior executives on the current state of channel adoption in their organisation. Consistent with the discovery-driven purpose of the study, our sampling technique sought to generalise to theory rather than be statistically representative. Therefore, a convenience sample was used; interviewees deemed to be able to authoritatively comment on online retail adoption were identified and invited to participate. These respondents represented a broad

cross-section of retail organisations in terms of size (revenue), location (state), product category (sector), and business model (franchise, company owned). Importantly, these interviewees represented a mix of channel structures, form pure online to pure bricks-and-mortar retailers – with several interviewees in the middle ('bricks and clicks'). We intended this variation to allow us to determine the opportunities and barriers in offering multiple channels.

A total of 21 in-depth individual interviews were conducted with marketing directors and senior executives of leading Australian retail organisations. The interviews followed a semi-structured format to allow for questions and discussion to flow naturally. Questions started out broad, probing on the state of online retailing for the organisation, with floating prompts used for deeper meaning and understanding of the responses and issues of interest as they arose throughout the interview. Paraphrasing was also used to clarify interviewees' responses, and to ensure the interviewers understood the respondent's response and allow for any follow up questions (Strauss and Corbin, 1998). Interviews lasted between 30 and 45 minutes on average and responses recorded with an audio-tape and transcriptions written for analysis. Analysis occurred after each interview to identify themes, commonalities, and patterns and to allow the responses to inform subsequent interviews. After an initial careful review of the transcripts, open coding took place, whereby text from each interviewee was classified into emerging categories (Strauss and Corbin, 1998). As part of open coding, the process of triangulation took place to check the credibility and validity of the information gathered, and multiple perspectives were used to interpret a particular theme or pattern.

Findings

Most interviewees viewed multichannel retailing capabilities as increasingly important to modern retailing, particularly in terms of building brand awareness and more effectively engaging with potential and existing consumers. However, several of our interviewees (from some of Australia's largest retailers) did not have transactional capabilities, and many reported a struggle to determine their allocation resources across channels (particularly emerging digital channels). Through our discussions, we find three overarching themes that appear to drive retailers' adoption of multiple channels: organisation innovation, market orientation and organisational capabilities (which include resources and structure). In the following pages we discuss these themes in turn before presenting a hypothesis model of multichannel adoption in the retail context.

Organisational innovation

Innovation is defined as "the generation, acceptance and implementation of new ideas, processes, products or services" (Thompson, 1965, 36). Retailers that have adopted multiple channels discussed numerous strategies that demonstrate organisational innovativeness. In particular, these organisations have challenged themselves to experiment with new and emerging media and communication platforms in delivering their offer to (current and potential) customers. The most innovative firms discussed how interactive and social media (i.e., Facebook, Twitter), along with mobile phone applications, were being explored or developed in being relevant and appealing to today's increasingly digital consumer.

> *We have several broad strategies in relation to search engine optimisation, social media marketing, email technology, SMS technology, and ongoing feedback and dialogue with our customers via these avenues, which are giving us some very*

important insights and cross-channel promotional opportunities for future business planning and growth. [Consumer electronics chain]

Such innovations are aiding in broadening customer reach, conducting research, tracking consumer behaviour, and gaining input into product development (i.e. through co-creation) and even the store environment (as demonstrate by the following passages).

The best research takes place via your website with your online community ... it's actual, it's factual, it shows your weaknesses, your strengths ... We've found it's also a great way to innovate product. People are saying this product is fantastic only it would be great if it did 'x'... then we go away and have a look at that. We're seeing everything people are looking for, we're seeing when they leave, we're seeing when they drop out of the cart ...We've launched ratings and reviews, so people can evaluate products and write reports to let other consumers know what their experience was like... We've also very recently launched a blog page... So it's more about community involvement and letting our customers do some of the educational speaking for us, rather than us just out there beating our chests saying we're great. [National photographic chain]

We do customer surveys to ask our online customers about their in store shopping experience... We also have online tools for collecting suggestions and input from customers via a digital panel about products and pricing and around some of our marketing campaigns. [National supermarket chain]

Market orientation

Company success rests on determining customers' needs and wants and satisfying them more effectively than competitors (Kotler, 1994). In turn, market orientation relates to the operationalisation of the marketing concept and so reflects the extent to which a firm's actions are consistent with the marketing concept (Kohli and Jaworksi, 1990). Discussions with retailers around the operation of multiple channels also highlighted various degrees of market orientation. More market oriented organisations were actively monitoring the market generally and competitor activity specifically (for positioning checks), online customer behaviour (via email or loyalty card data) and customer feedback (via online survey or community discussions) in a bid to deliver more tailored, relevant and competitive offers.

Lasoo (an online retail catalogue portal) is a great repository for us because we can look through our competitors catalogues and instantly see whether we're on the mark or not. We've also been using it to compare our promotions and pricing .... It's very easy for us to do such checks in terms of where we're sitting in the market. [Discount department store chain]

We've got empirical data about how much our loyalty card customers spend, how often they spend, what they purchase, etc. We tailor offers to them, give them previews and special offers ... We've got a lot of data by SKU, by store, by date, by customer... we even know who's responded to which specific offers, etc. We use all of this information in combination to make our customer communications and offers more relevant and personal and ultimately differentiate us within our market. [Beauty and skincare chain]

It is worth noting that, common to such retailers is a willingness to experiment with (and often develop) new and emerging digital channels. Often these practices were in line with international best-practice gleaned from more established markets such as the UK and US. Those organisations not multichannel aligned tended to be inwardly focused and fixated on daily retail operations.

Organisational capabilities

Multichannel retailers also spoke to several internal capabilities that enabled them to operate across channels in an integrated and seamless manner. These capabilities were centred on organisational culture, organisational resources (dedicated team/division, management support and transaction fulfilment processes) and organisational structure (operational business model). The following quotes reflect the value of these internal capabilities and their respective facilitation of an integrated multichannel offer.

> *The main barriers have been internal in terms of people understanding or being prepared to come to understand the value of online. The business team fully understands traditional media in terms of press and catalogues … They don't understand, and haven't seen the power of online… So it's more than just the fact that it's new territory and really concerns internal education and building a supportive organisational culture. Now that we fully understand the value of it, it's been easier to obtain funding for investment.* [National supermarket chain]

> *The level of priority for online retailing is now fairly large… We have a new MD who's very focused on moving into the future, so multichannel retailing is key in our strategy for the next year. For us it has been the case that senior management has come into the organisation and pushed the agenda for change.* [National stationery chain]

> *We need to make sure that we've got the back end processes, the warehousing and distribution down pat, to know that we can do it properly rather than getting a website for the sake of having one and not having the infrastructure to pull it off then have customers disappointed… they'll turn away and we'll lose them before we've got them.* [National lifestyle chain]

Organisational structure was discussed as a significant factor in overall channel adoption in terms of being able to ensure integration and consistency of the brand. The following quotes highlight some of the issues faced by franchise or co-operative structured retail organisations.

> *The age profile of our current franchisees has been a barrier. A lot of our franchisees are 45 plus, so online or web is something which they're not au fait with as much as the Gen Y or Gen X would be. That's a constant problem… We try to get as much buy in from the franchisees… if they believe in our program they'll drive it harder in store, where if they don't believe in the program, they won't support it in store and then in the end we let down the customer.* [National sporting goods chain]

> *We're limited by our franchisees ensuring that we get buy in and support from the entire network… A franchise versus corporate model is very different; we have different goals and different agendas, so I don't think we'll ever be 100 percent aligned, but we are speaking to the same consumer so it's important to get it right.* [National supermarket chain]

Hypothesised model of multichannel adoption

From the theoretical basis discussed here we derive a model of the key determinants of retailer's multichannel adoption to be tested in a quantitative study. We propose that market orientation and innovation are determinants of multichannel adoption, with the relationship moderated by the retailer's organisation capabilities. This model is presented below.
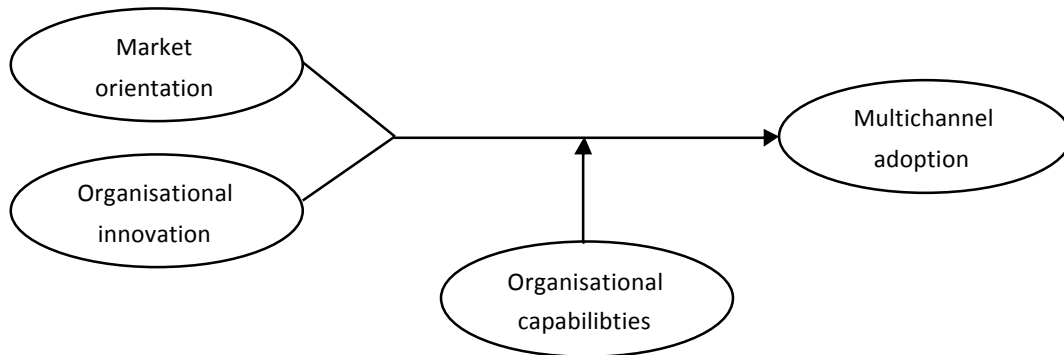

Figure 1 – Drivers of multichannel adoption in retailing

Conclusion and Discussion

In summary, our research highlights that multichannel adoption is varied in the Australian market and is an ongoing journey, with learning from best practice a necessary part of this process. We propose there is an interplay between market orientation, organisational innovation and a retailer's organisational capabilities (culture, resources and structure), which are necessary for the development and success of integrated multichannel retailing. Our research suggests that successful multichannel retailers have invested in and structured resources and support processes in response to this issue such as educating existing staff and setting up dedicated divisions for managing multiple operating channels. We propose this factor acts as a moderator between the firm's market orientation and innovation in influencing the uptake of channel adoption for transactional capabilities.

This research is somewhat limited in that discussions (at this exploratory stage) have focused on retailers in Australia. Bearing this limitation in mind, we are able to make a number of recommendations to Australian retailers. First, retail brands are well-positioned to take advantage of today's global multichannel environment, particularly the online channel in offering consumers greater convenience and flexibility via multiple touch points at which to interact or communicate with them. A second recommendation is that retailers need to work towards integration, consistency and relevance across channels given its current primary function as a consumer information search tool. These actions will become increasingly important and evident in the years ahead in line with continued technological advancement and smart phone mobile devices becoming more commonplace.

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