Capgemini Consulting

Channel Strategy: Framework for Success

How to Maximize Internal and Customer Benefits Through Effective Channel Management

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Abstract

The number and type of channels that customers are using has rapidly grown to include the Internet, smartphones and a host of social media options.

The result is an increase in possible customer touchpoints presenting more and different opportunities for organizations to interact with their customers. This, along with the increasing sophistication and empowerment of customers, is driving a need for organizations to use new channels and use them differently. And though great opportunities can be delivered by entering new channels, many organizations have not had successful experiences. Examples exist from disappointing results due to mismanagement of a new channel to complete misjudgment of the overall channel requirements, detrimentally affecting the top-line company results.

Capgemini Consulting advises that a channel strategy designed for the customer needs of that organization is imperative to ensure channel success. Understanding the customer's channel requirements for their different possible interactions with the organization is a crucial strategy input. The customer may use multiple channel touchpoints to complete a single transaction, and organizations need to be cognizant of this in their channel strategy. Customer centricity has become a strategic imperative, and organizations need to create a channel mix capable of delivering a valued and differentiated experience at each key consumer interaction.

Capgemini recommends that an organization uses a framework to develop its channel strategy such as Capgemini Consulting's Channel Management Strategic Framework. It firstly develops an understanding of the customer needs to build up channel business requirements. It then takes the organization through five steps, which introduce, optimize, migrate, rationalize and integrate channels. Using such a framework means that a company can capitalize on the channel opportunities available, delivering the required customer experience and ultimately increased sales or reduced cost to serve.

Introduction

The number, type and reach of possible channels through which a customer can interact with an organization has increased rapidly over the last decade.

Between 2000 and 2010 global Internet usage grew 444%[1] shaping many aspects of a consumer's lifestyle including the way goods and services are selected.

Mobile telephony too has significantly penetrated the global population. Access to mobile networks is now available to 90% of the world[2] and penetration of the mobile market by the smartphone is particularly increasing. U.S. smartphone penetration of the mobile phone market is predicted by Nielsen to reach 49% by the end of 2011,[3] and the uptake of the biggest selling smartphone, the iPhone, was far more dramatic than other previous technological launches (see Figure 1).

The continuing growth of social media is also having a significant channel impact, splitting the online channel into a series of additional potential customer touchpoints. New channels that have gained traction in the last decade include blogs, online communities and social networking. Facebook, the most visited social networking site, became the most popular site on the entire World Wide Web in 2010.[4] These new transactional and information channels are changing the landscape of how the consumer buys, browses and socially connects. Social networking particularly means that an organization has less direct control.

The social channels are changing the dimension of marketing from a "push" to a "pull" environment as customers reach out through multiple social channels to get the information they need. This is in contrast to the "push" marketing messages delivered by traditional channels. Customers increasingly expect to be able to engage with companies through community-based interactions, and best practices to do this have emerged.[5] Crowdsourcing is one such example, where customers can collectively influence new product and service ideas. Unilever moved from its costly traditional marketing agency to an online ideas forum open to all to submit advertising ideas for its consumer products, awarding a prize to the winning idea.[6] Giffgaff is a community-driven mobile network. Members get rewarded with mobile services for helping to run the company through their ideas and generating new customers, thereby reducing fixed overhead.[7]

Global Electronics Manufacturer: Launching a Successful Online Channel

This global consumer products manufacturer wanted to develop an innovative online channel, which would provide information, products and customization and community opportunities for its customers. Capgemini Consulting was chosen as its strategy, design and implementation partner for the venture, which included:

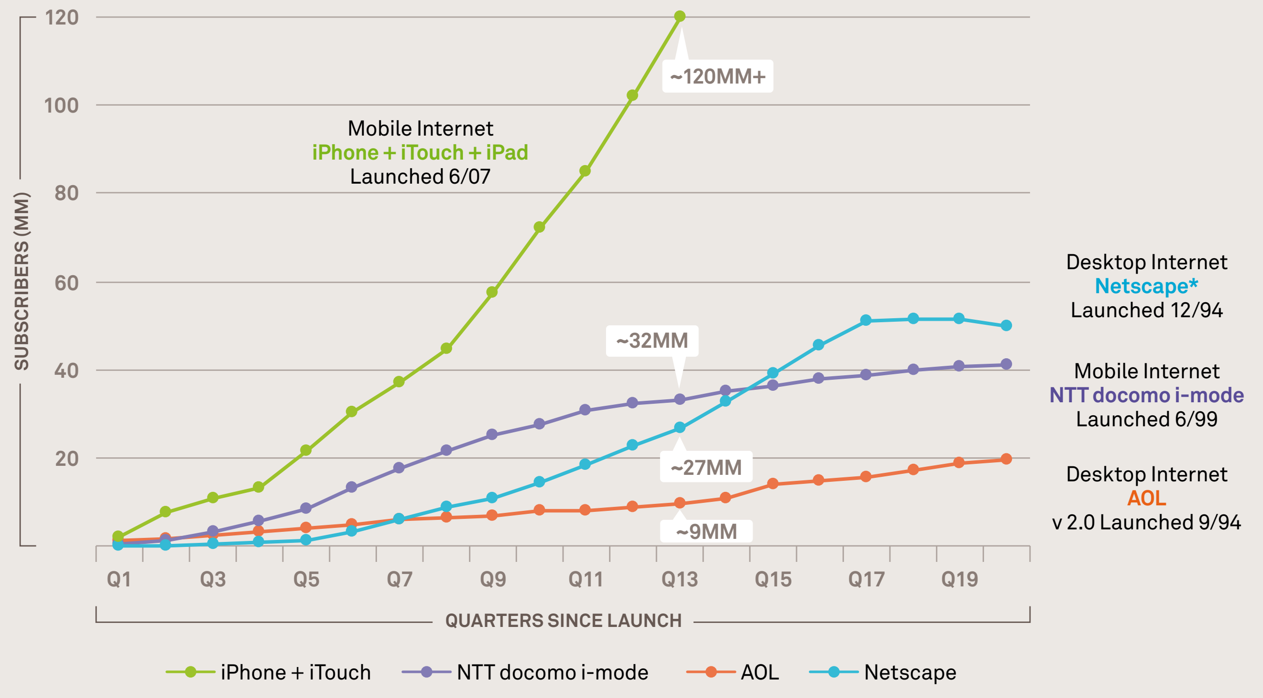
- Development of an online sales business plan
- Design of the online sales organization and processes
- Definition of website features and functions
- Launch of the new e-shop

Three months after launch the online shop had already generated €300 million of qualified referrals to the traditional channels.

1 "Internet Usage Statistics," Internet World Stats, December 2010
2 "The World in 2010," ITU, October 2010
3 "Industry dynamics, Telco Services," Royal Bank of Scotland Broker Report, April 2010
4 "Facebook Tops Google; Social Networking Passes Search As Web Users' Top Activity At End Of Year," Mercury News, January 2011
5 "Forrester's Top 10 Trends for Customer Service in 2011," Kate Leggett, Forrester Research Inc., January 3, 2011
6 "Unilever Goes Crowdsourcing to Spice Up Peperami's TV ads," The Guardian, August 2009
7 www.giffgaff.com

In light of the growing and changing channel options and the sales opportunity they can provide, there is a compelling need for organizations to capitalize on channel mix to drive increased business for their products and services. In this paper, we explore how the lack of a strategic approach to channels can jeopardize overall organization performance. We highlight the importance of having the right channel strategy and how understanding the customer channel expectations is a crucial input to this. We conclude by stressing the importance of a strategy and introduce Capgemini Consulting's proprietary Channel Management Strategic Framework and how it can be used to maximize results from an optimized, high-performing channel mix.

Figure 1: Number of iPhone Users in the Quarters Since Launch Compared to Other Technologies



Source: "Ten Questions Internet Execs Should Ask and Answer," Morgan Stanley, November 2010
*Note: Netscape users limited to U.S. only.

Channel Failures

Great opportunities can be delivered through expanding or switching channels to reach the customer, but many organizations have made costly channel mistakes that negatively affect the overall business.

Not adjusting the channel mix to meet the changing needs of the customer can mean company disaster. Blockbuster video failed to react quickly as its customers and pure-play rivals moved online. Its prime real estate policy for its bricks-and-mortar stores worked well in the '80s and '90s but needed to be switched to more direct shopping channels post-2000. Blockbuster's movie stores, DVD vending kiosks and digital downloads were brought in too late to offset the physical stores' losses, and the company declared bankruptcy in November 2010.[8]

Organizations need to understand that they are not necessarily in direct control of how the consumer interacts with their brands in some channels. Consequently, they need to engage the consumer in a different way. Nestlé has received negative PR as a result of its actions on Facebook, due to its attempt to control user comments and use of its logo on the site. This produced an online community dialogue criticizing the Nestlé brand and its online behavior.[9]

Failure to understand a new channel and applying a traditional strategy was the mistake made by Walmart in its Facebook marketing campaign. Walmart did not adjust its marketing techniques to the social network environment. It limited feedback and interaction from its community members and tried to push a repeated marketing message in the way of a traditional offline marketing campaign. Its rival Target, on the other hand, created a "pull" marketing situation, taking time to understand how customers wanted to act on Facebook and setting up a more interactive site with customer dialogue. Target attracted over three times the number of users that Walmart did.[10]

Understanding the company's own key strategic strengths in developing channels is also crucial. When betting firm William Hill decided to move into the online market it failed to recognize its strengths and core business and tried to develop its own custom-built online IT solution. The initiative wasted an estimated £26 million.[11]

An inappropriate application of a new channel can cause significant customer discontent. Pepsi tried to reach out to the target male audience for its AMP energy drink with a "guide to women" iPhone app. The application received such negative social media publicity about its derogatory nature it had to be withdrawn and Pepsi issued an online apology.[12]

In summary, understanding how customers are changing and how they want to use the channels of their choice to communicate with an organization is crucial. Companies also need to time their entry into a channel appropriately. These factors should be built into an organization's channel strategy.

[8] "Online rivals bring brutal end to Blockbuster story," The Independent, August 2010
[9] "Nestlé's Facebook Page: How a Company Can Really Screw Up Social Media," BNET, March 19, 2010
[10] "Walmart Failed Facebook Social Internet Marketing Campaign," Articlesbase, October 2009
[11] "Gaming machines help William Hill hurdle online woes," Reuters News, February 2008
[12] "Pepsi goes down with AMP on failed iPhone app," Econsultancy, October 2009

Understanding the Needs of the Customer

First and foremost to manage their channels effectively, organizations need a channel strategy. Good channel management is not necessarily operating in all channels.

ASOS, the online fashion retailer, started the first half of financial year 2010-2011 with a continuation of many years of double-digit sales growth with profits rising 59% over the previous year, all from operating purely online.[13] Amazon has also focused only on the online channel and its revenue remained strong in 2010 with 39% growth from its base of 121 million active customers worldwide.[14]

To select the optimum channel strategy these companies understood their customer needs for their products, which is a crucial strategy input.

[13] "ASOS uses international sales to drive 59% profit boost," Computer Weekly, November 2010

[14] "Ten Questions Internet Execs Should Ask & Answer," Morgan Stanley at Web 2.0 Summit, November 2010

UK Retailer: Creating a More Integrated Customer Experience

This UK-based clothing, food and homeware retailer had a series of channels that had been added to its core offering over time rather than being designed together. This resulted in different experiences across different channels.

Capgemini Consulting used its Channel Management Strategic Framework to analyze how well the channels were delivering the experience required by the company's customers. Benchmarking against leading practitioners and mapping customer journeys were key input into designing the required channel strategy. We worked with the retailer to create a roadmap with action plans across all channels to provide a more integrated customer experience.

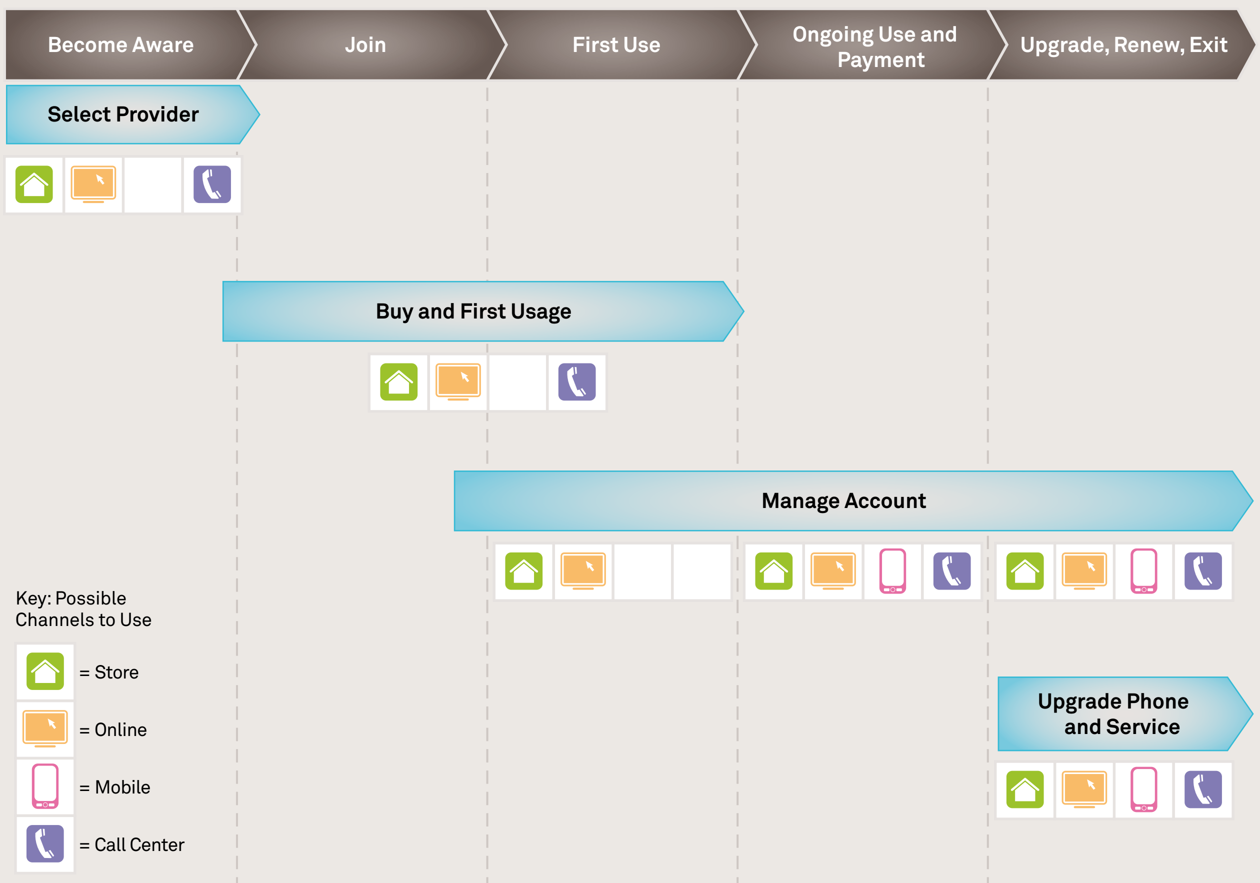
The Customer Journey

The starting point of understanding the customer is to think of his or her possible interactions with the organization as a set of journeys that are triggered by a need or want. Selecting a product or service is more than a simple transaction; the customer journey encompasses everything a customer thinks, feels and perceives while interacting with a business.

In the multi-channel world customer journeys have become much more complex with a customer using several channels throughout the journey's course; customers are not loyal to a particular channel. This can negatively impact customer experience if the transition between channels is not seamless. In 2010, more than 75% of shoppers in the U.S. were using at least two channels to browse, research and conclude purchases.[15]

Some typical multi-channel journeys for a telecoms provider are shown in Figure 2. This channel-hopping behavior presents the need for organizations to understand the multi-channel requirements of their customer and the complexity of how one channel can influence another. For example, many retailers have found that a small percentage of sales are directly attributable to their catalog. Customers are, however,

Figure 2: Example Cross-Channel Journeys for a Telecoms Provider



Source: Capgemini Consulting

[15] "Cross-Channel Commerce: The Consumer View," A consumer research study commissioned by ATG, March 2010

browsing the catalog to decide on their purchase and then going online to complete the transaction. Retailer JC Penney eliminated its traditional catalog and switched to "look books," more frequent, customer targeted catalogs that line up with the company's online offering.[16]

The Joined-up Customer Experience

As customers channel hop they expect consistency in their experience. This harmonization of the brand across channels is a channel management basic that customers expect no matter which channel they are using. They expect the organization to remember their interactions and channel preferences and adjust the service accordingly. Centralized customer information that is accessible by the entire organization is an essential enabler to deliver the joined-up channel experience.

Maintaining the Experience Through Channel Migration

It is well known that some channels are cheaper to operate than others and by encouraging customers through these lower-cost-to-serve channels organizations can reap operational cost savings. For example, online transaction costs can be a fraction of those of telephoning a contact centre. Relative costs for checking bank balances and account transactions in different channels are shown in Figure 3.

However, customers will have different journey and shopping needs and should not be channeled into the cheapest option to the detriment of their expected experience. The more complex the customer's requirements the higher the likelihood that a more tailored or personal service is needed. Banks, for example, may service low-complexity customers with simple requirements online, supplemented with the offer of online chat for more complex queries before customers need to pick up the phone for highly complex issues.

If managed well channel migration can mean that the customer actually gains an improvement from the switch to a cheaper channel. In the U.S. banking example shown in Figure 3 customers saw a variety of benefits from switching to online banking.

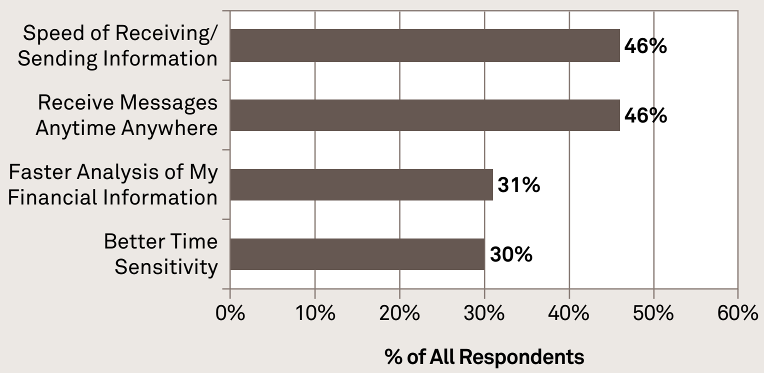
The DVLA, the UK government organization responsible for vehicle licensing, added an online and automated telephone service to its traditional postal channel to increase efficiency and reduce costs. Customer feedback was very positive as many customers found that the new channels were more convenient and quicker to use than the previous channels.[17]

Once an organization has a detailed understanding of the channel expectations of its particular customer then it is ready to use a framework to build its channel strategy.

Figure 3: Typical Relative Transactional Costs for Checking Bank Balances and Recent Transactions

Channel	Transaction Costs
Online	$0.17
Mail Statements	$0.75
ATM (Automated Teller Machine)	$0.85
Interactive Voice Response System	$1.25
Contact Center	$3.75
Bank Teller in Branch	$4.00

Benefit Customers Perceive From Using the Online Channel



Source: "Mobile Banking Survey," Syniverse, 2009

[16] "JC Penney to shut down catalog outlets," DMNews, January 2011
[17] "Electronic service delivery in the Deliver, Vehicle and Operator Agencies in Great Britain," National Audit Office (NAO), January 16, 2008

Channel Management Strategic Framework

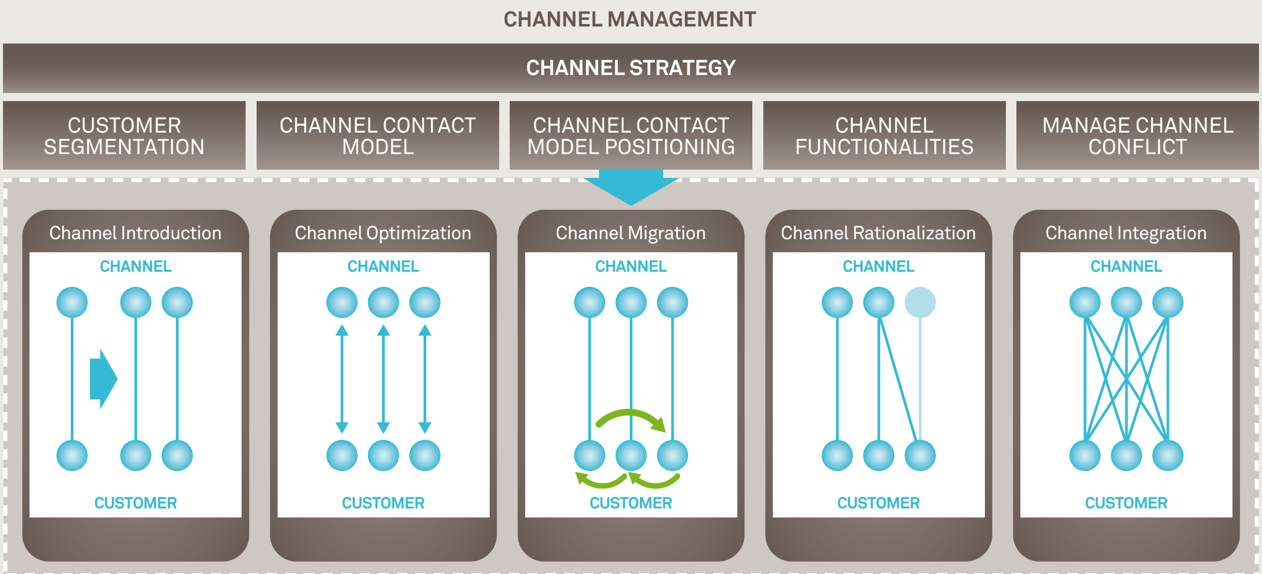
Capgemini Consulting has developed a Channel Management Strategic Framework from which a channel strategy appropriate to driving results for a particular organization's customer and products or services can be developed.

Defining the Channel Business Requirements

The framework (see Figure 4) begins with describing what an organization should achieve from its channels in business terms. Core to this is an understanding of the customer's channel requirements. The classic or standard marketing approach of gaining a deep understanding of the customer's needs must be coupled with up-to-the-minute knowledge of how to engage customers with different channels. The customer insights need to extend to knowing which channels an organization's targeted customers want to use and how they will use them.

The complexity of the customer channel interactions throughout the sales journey needs to be understood. A channel that is used to build awareness of a service to a customer but not to sell it, for example, still forms an important part of the channel strategy. In the U.S. in 2011 it is estimated that 39% of sales will be influenced by the online channel in addition to the 9% actually transacted online.[18] This strategic definition of customer and channel requirements for the business should ensure that each channel will form part of a cohesive, combined company strategy. It also forms the basis for the five-step key channel decisions to be made that lead to an appropriate, optimized, integrated channel mix.

Figure 4: Channel Management Strategic Framework



Source: Capgemini Consulting

[18] "US Online Retail Forecast, 2009 to 2014," Forrester Research Inc., November 2010

Channel Introduction

Each channel should represent a key interaction point between an organization and its customers. There are many channel options, from stores, phones and contact centers to the Internet, mobile devices and social media tools. A company needs to determine which new channels will meet its strategic objectives and help increase the customer base, grow revenues and reduce costs. Domino's Pizza introduced an iPhone ordering app in September 2010 and within three months the app had driven £1million of sales in the UK and accounted for one-third of its online orders.[19] Banks are developing creative channel solutions for servicing emerging market economies. M-Pesa is a Kenyan company that offers a mobile money transfer service. Since the introduction of the service in 2007, 38% of Kenyan households have at least one M-Pesa user while only 22% of the adult population have bank accounts.[20]

Using the Channel Management Strategic Framework (see Figure 4) a strategy can be developed by answering five key questions:

1. **Channel Introduction:** Which channels should be present?
2. **Channel Optimization:** How are these channels performing?
3. **Channel Migration:** Which customers should be using which channel for what?
4. **Channel Rationalization:** Which channels do we not need to meet our business goals?
5. **Channel Integration:** How should the channels be integrated?

Channel Optimization

Channel optimization ensures that each channel is performing against its strategic business objectives. There should be both specific sales and customer interaction targets, as a particular channel's strategic intent may be to drive sales to other channels. Performance against the targets should be monitored continually and used to drive the processes and system changes needed to meet the channel objectives. Online retailer Petco.com, for example, found that products with reviews have return rates that are 20% lower than for those without. By adding this feature to its website it saved on shipping, restocking and customer service costs.[21]

Channel Migration

Once the right channels are in place and working effectively, an organization can begin to match the profitability of different customers with their cost to serve. This requires an organization to understand each channel's operational efficiencies and costs. Customers can then be "steered" to the appropriate channel through incentives, promotions, additional services and awareness generation. This migration should not come with a perceived degradation of service by the customer, rather as an enhancement, for example being quicker or more convenient for the customer.

Capgemini Consulting worked with an Asian airline to migrate its customers to its lower-cost and more efficient online and mobile sales channel. We helped advise on a promotional awareness campaign and the enhanced online and mobile features such as seat selection, which made customers prefer and stick to the channel.

Disney's online wedding Wish Book enables users to configure a wedding package and then click a button to share and discuss it with a customer service representative.[22] Without this application, customers would likely be on the phone much longer running through possible options.

Channel Rationalization

In a world of increasing channels, eliminating a channel may feel counterintuitive to some organizations but strategically this may be the right course of action. In using the framework a company will have identified its strategic channel goals and understand the costs to serve for its channels. Terminating under-performing channels reduces complexity and cost, freeing up resources to allow the organization to focus on the core, profit-driving channels and improving the overall experience.

Capgemini Consulting worked with a major UK retailer to rationalize its channels. The retailer had two store brands in the marketplace each serviced by individual online and call center operations. We helped combine the individual channels into one that could still meet the brand needs of both store chains. The more efficient, rationalized channel delivered significant cost savings for the retailer without compromising customer experience.

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[19] "Domino's Defies Snowfall as iPhones Boost Festive Sales," The Daily Telegraph, January 2011
[20] "Benefits of Mobile Money Transfer Trickle Down to Rural Folk," All Africa, October 2010
[21] "Leading Pet Retailer Finds That Returns Plummet When a Product Has Reviews," BazaarVoice, June 2007
[22] http://disneyweddings.disney.go.com/

Channel Integration

With the optimized channel mix in place companies can then maximize their gains by ensuring channel integration. This is from both a customer journey and brand experience and operational perspective. Channel integration can eliminate the silos of individually run channels and manage the customer experience with optimum efficiency through:

- **Continuity** – Providing seamless channel transitions to reduce the risk of losing contact with the customer during channel hopping.

- **Controlled choice** – Aligning activity within each channel and promoting the use of the most efficient channels.

- **Consistency** – Managing the customer experience across all marketing, sales, service, finance, IT and supply chain interactions.

An organization that effectively follows the Channel Management Strategic Framework will have the right channels that are performing and aligned to drive customer interactions and profits.

European Bank: Finding the Right Channel Strategy

This major European bank was questioning the effectiveness of its new branch opening strategy as it was merely replicating its current channel mix and cost model. Capgemini Consulting worked with the bank to assess which of the new available technology channels would be the right strategy in serving its customer and helping it operationally drive down costs. A joint program office was established to manage the change to the new branch concept, which included more self-service options such as kiosks. The transformation program carried out resulted in:

- Increased gross operating incomes through maximizing customer potential

- Streamlined customer relations across all channels

- Reduced distribution costs

Recommendations

The interaction with the customer is changing rapidly, as both the channels to the customer as well as the possible customer touchpoints are proliferating.

Organizations need to keep pace with change and adjust to meet their changing customer requirements. However, acting without a plan and an understanding of new channels can result in sub-optimal results adversely affecting overall company performance. Multi-channel across all channels is not the right approach for every organization. Strategic choices are required.

Capgemini Consulting recommends the following channel strategy approach:

1. The strategic channel plan should begin with an understanding of which channels an organization's customers are using and how they are using them.

2. The operational differences required of the new channel need to be understood and built into the channel introduction strategy.

3. Customers expect a harmonized experience across channels and the strategy needs to ensure enough cohesion among the channels to deliver this.

4. By understanding its internal efficiencies an organization can use its channel strategy to encourage customers through a reduced cost-to-serve channel.

5. An organization's channel strategy should be created and managed in a framework such as the Channel Management Strategic Framework. Effective use of such a tool will ensure that enhanced results are delivered through the channels that fit an organization's customers and products or services.

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Capgemini Consulting is the Global Strategy and Transformation Consulting brand of the Capgemini Group, specializing in advising and supporting organizations in transforming their business, from the development of innovative strategy through to execution, with a consistent focus on sustainable results. Capgemini Consulting proposes to leading companies and governments a fresh approach which uses innovative methods, technology and the talents of over 3,600 consultants worldwide.

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