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# How the Roles of Internet Affect Successful Multichannel Retailing?

## —The Exploratory Analysis from America

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**Abstract:** More retailers are now incorporating the Internet as a channel to their existing operations and becoming multichannel retailers. However, not all multichannel retailers are successful in their attempts and even some otherwise successful traditional retailers have failed to capitalize on the Internet as a retail channel. This paper explores the various multichannel strategies of some American prominent retailers in an attempt to identify key success factors in the incorporation of the Internet as a distribution channel. This exploratory analysis concludes with some managerial implications on the use of the Internet as an element of a retailers' multichannel strategy.

**Keywords:** Multichannel Retailing, Internet, Success Factors

### 1. INTRODUCTION

The fact that distribution channels play a strategic role in marketing success has been recognized for decades. An important way in which companies use distribution channels to compete is through the design of innovative new channels to existing ones. The design and management of such marketing channels are thus, important competitive elements for all firms. Increasingly, rather than focusing on a single channels, retailers have been adding new channels to attract a wider market base and to offer specialized services to specific target segments.

With the increasing prevalence and acceptance of the Internet, many traditional retailers have now employed the Internet channel as a transaction channel in their marketing mix. The Internet channel is often viewed as a logical extension of the storefront's physical presence, a complement to existing customer relationships, business processes, and distribution systems (Chu, 2007). Several leading retailers "brick-and-mortar" retailers such as Best buy, Barnes & Noble, and Sears as well as catalog retailers such as, L.L.Bean and Lands' end have transformed to "clicks-and-mortar" and "clicks-and-catalog" retailers, respectively, by incorporating the Internet as a retail channel. The impetus for adding an Internet channel to existing operations is understandable. According to U.S. Census Bureau, total retail e-commerce sales for 2011 were about \$19.43 billion, an increase of 16.1 percent from 2010 (U.S. Census Bureau 2011). The retail e-commerce sales of 2011 accounted for 4.9 percent of total sales in America.

Retailers find that there are several advantages of incorporating the Internet channel. Some of these advantages include overcoming the limitations of their existing format, expanding market and customer base, gaining more revenues through the cannibalization of channels, obtaining insights into customers' shopping behaviors and retention of loyal customers (Bernstein 2008). The increase in the number of potential customers using the Internet has also fuelled this retail transition. According to Nielsen//NetRatings, nearly 70% of the US Population will be are internet users, as of 2013, the total numbers will be 221 million of Internet users.

The Internet is a powerful medium to enable provision of retail information at relatively lower costs, connecting and interacting with customers and enabling retail transactions and services that may or may not be

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offered through traditional retail channels. However, few retailers have capitalized on the transaction capabilities of the Internet. Many retailers and retail chains still use the Internet only as an information medium (Rangaswamy and Bruggen 2005). These include large retail chains, including supermarket chains, which had failed in their attempts to build the Internet as a transaction channel.

A study of the successful transition of a few retailers to a multichannel strategy including the transaction capabilities of the Internet may generalize insights on the key factors necessary for such multichannel success. This paper reviews prominent cases of success of traditional retailers and offers some key managerial insights.

The organization of the paper is as follow. In the next section, we review literature on the development of a retail multichannel strategy. In the section following, we elaborate on the appropriateness of the case study methodology used and identify Wal-mart, J.C.Penney and Lands' End as representative examples of multichannel retailers with distinct starting points. For example, Wal-Mart incorporated the Internet from its position as a conventional brick-and-mortar retailer, JCPenney was successful in brick-and-mortar and catalog operations before it included the Internet as a channel, and Lands' End was a successful catalog retailer before becoming a multichannel retailer using the Internet. In a later section, we explore and analysis the key success factors based on our case studies. Finally, we discuss some key findings, limitations of the study and offer managerial implications and directions for future research suggested by our analysis.

## **2. Literature Review**

Multichannel has been defined as the use of more than one sales channel, such as online, brick and mortar, and catalog (Kotler and Keller 2010). The focus in multichannel marketing research development has shifted from evaluating whether it can be of value, to understanding how to get the right mix of multichannel, thinking like one and exploring effective factors for multichannel retailers.

Gulati and Garino (2000) explore spectrum of choices, in terms of spin-off, strategic partnership, joint venture and in-house division as the different path between separate and integrate for the experience of different retailers. Balasubramanian (2005) focuses on the customers' opinion from a different insight to provide managerial implication for retailers. As he noted, detailing the knowledge about customer shopping sequences, providing self-affirm feedback and offering great flexibility in configuring online shopping environment are the key factors to success in multichannel retailing. Weinberg et al. (2007) provided guidance in developing an effective multichannel mindset and highlighted IT, cross-channel interaction and incentive systems in designing multichannel organizations for serving end consumers in B2C situations. Griffith and Howard (2008) explored the varying multichannel strategies and tactics in fashion clothing and electronic good sectors like investing online experience, providing product details and employing a seamless integration of brand for their business success (Ofek 2011). Avery (2012) found evidence of cross-channel cannibalization and synergy and explain whether and when the introduction of a new retail store channel helps or hurts sales in existing direct channels.

While, there has been hardly any discussion of the factors that are necessary for the Internet success of multichannel retailing. In this study, we focus on effective planning and implementation of the Internet as a distribution channel and identify some important factors based on the review of online channel experience of prominent multichannel retailers.

## **3. Methodology**

The purpose of this article is to explore how and why some multichannel retailers success in online channel, expand and generalize the factors contribute to the online channel success in multichannel retailing based on detailed observation from the representative firms. A case study methodology enables focusing on distinct examples of multichannel retailing success, with a view to finding insights that can be later tested through other

methodologies (Yin, 1989). Moreover, since there are no prevailing frameworks on success in multichannel retailing, the case study methodology may enable the construction of a framework based on basic elements.

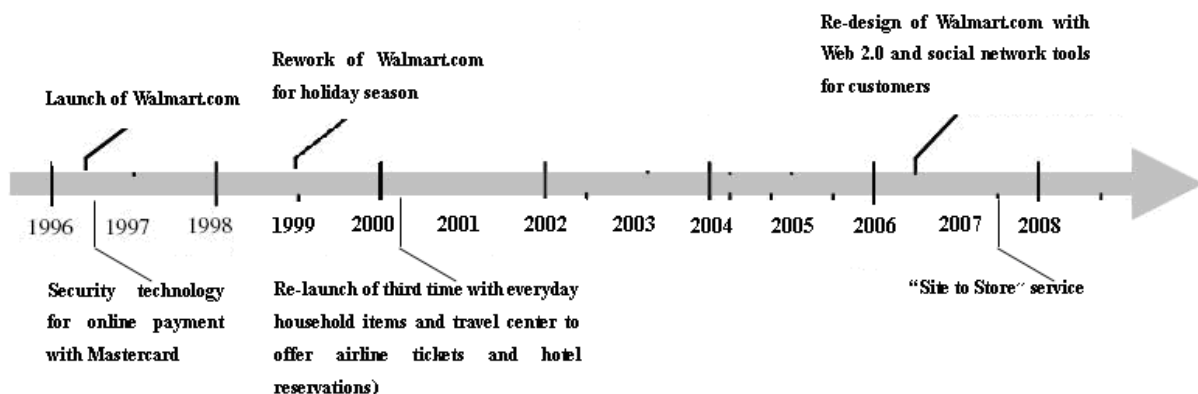
For our analysis, we selected three large retailers -- Wal-mart, J.C.Penney Company, and Land's End. These three companies were leaders in different retail channels before they adopted the online channel. Wal-mart was a brick-and-mortar store, J.C.Penney was successful in brick-and-mortar and catalog operations, and L.L.Bean was primarily a catalog marketer. These three retailers represent good examples of movement to multichannel Internet retailing from different initial experiences.

In our analysis of these companies, we describe the three firms in terms of their online sales revenue as a proportion of their total revenues, the rank of the online sales in the retailers, the development of their online channel, analysis of the online channel strategy they adopt, and identify some key factors leading to their relative success in incorporating the online channel in their retail operations.

### Wal-mart

Founded in 1962 by Sam Walton, Wal-Mart followed an amazing pattern of success and growth, eclipsing all other U.S. department store retailers. In "the Nation's Retail Power Players 2008" reported "Top 100 retailers" in the USA, Wal-Mart is still a sprawling giant, regained the top spot as revenues exceeded \$378.79 billion (Schulz, 2008). Fig.1 indicates the traces of key initiatives at Walmart.com.

**Figure1 Traces Key Online Initiatives at Walmart.com**



Wal-Mart's dominant place in offline retail might be expected to provide it with top dog e-commerce status. However, making a transition to the Internet, Wal-Mart had suffered a number of failures. It had trouble in facing different customer based of the Internet and poor logistics (Michael, 2001). Moreover, Wal-Mart limited selection of low-priced products on its Website and added more bulky items like furniture and appliances online. For customers, it is difficult to identify some products whether in store or on-line.

Despite the relative failure of Wal-Mart.com, the advantages provided by the online channel may the reasons why Wal-Mart continues to have an Internet presence. Moreover, Wal-Mart is converting some of its initial disadvantages in operating an Internet channel into an opportunity, especially given the current economic environment. From Nielsen Online data analyzed that Walmart.com grew 26% year-over-year to 25.31 million visitors in October 2008 (Nielsen/NetRatings 2008), secure third place in traffic to e-commerce site. It indicated that there are several advantage factors drive consumers to stretch their dollars at Walmart.com.

#### *Offer Low Prices Online*

Wal-Mart.com also adopts "Every Day Low Prices" strategy online (Parnell and Lester 2008). More customers gravitate toward low prices to Walmart.com and most online competitors find it difficult to compete with Walmart.com on price.

*Sell a Wide Variety of Products Online*

Walmart.com changes the former “limited online merchandise” strategy and sells a wide assortment of the products online, especially adds grocery and pharmacy which are seldom selling through the Internet. One of Walmart.com goals is to provide more than 1,000,000 products available online.

*Create Novel Services Online*

In the innovative businesses that Walmart.com continues to develop, such as 1-Hour photos, which can be seen the finished prints at Walmart.com, where consumers can e-mail the photos to friends or make them into gift cards; pharmacy services, which by place an order to be picked up in the store to viewing prescription history online and setting up e-mail reminders for refills. Such strategy is a particular tactic that distinguishes Walmart.com from other pure play online retailers.

**J.C.Penney**

J.C.Penney is the brick-and-mortar and catalog retailer before it included the Internet as a channel. Its online revenue was at the 12th place of Web Sales Volume rank of America in 2011 (Internet Retailer 2011). According to J.C.Penney’s revenue report of 2011 (J.C.Penney 2011), online sales has reached to \$1.5 billion, being 7.5% of the total revenues.

The strong online presence of apparel in Jcp.com changed previous idea that online presence was most notable for retailers selling electronics, CD and books, while apparel and groceries were not suited to online shipping. Jcp.com offers a great selection of fresh and exciting merchandise that features clear, understandable pricing for easy and fun shopping experience for customers. Besides, some special factors drive Jcp.com gain success in online channel.

*More Information for Merchandize*

Jcp.com provides a wealth of information on more than 250,000 products. As the main apparel website, it converts the traditional touch-and-feel information for customers into look-and-see information online. For example, Jcp.com not only provides the color, size, and material of apparel merchandise, but also exhibits some details such as elbow, waist special design for customers. Moreover, “Customer Review” as the online community may enable customers to gain more information of products.

*Personalization*

By collecting customer information, Jcp.com is able to create personalized purchase recommendation based on customers purchasing preference. And in anniversaries and holidays, it will remind customers to choose gifts from online gift registries around the world.

*Seamless Service*

J.C.Penney recently realigned the marketing teams, in order to serve stores and direct (Jcp.com and Catalog) divisions by same group. Therefore, customers can shop merchandise with “one voice”, enjoying seamless shopping experience.

Other integration Jcp.com established the service “know before you go” which allow customers to check merchandise whether in stock via the Internet before shopping in store. These integrated services enable customers to shop online at anytime and anywhere.

**Lands’ End**

Direct merchants, such as catalogers, have been quick to incorporate the online channel into their marketing mix. Updating prices and product descriptions and reducing catalog production costs are making the Internet an attractive benefit for catalog retailers.

Lands’ End, an apparel, luggage and home products maker, is the early adopters of the electronic commerce by launching Landsend.com in 1995. Many consumers apparently agree, as landsend.com earned a top three ranking of 39 apparel retailers in a recent Consumer Reports survey of more than 25,000 online shoppers.

Besides some common advantages among apparel online retailers, Landsend.com has been a leader in application of new IT technologies to realize the interactive online shopping experience and foster one-on-one relationships with its customers.

Some of these new tools include: “My Virtual Model” can design 3D virtual model of users; “Lands' End Live” realizes online shopping chats with friends or seller represents; “Lands' End Custom” is able to customize clothes; “Affiliate Network” creates links in customers’ own social network or blog and offers benefits of every sale for customers if a click-through from their sites.

The most important success reason for Landsend.com is that they have been able to gain advantage from the technology capability. Thus, it can provide virtual community for their online customers shopping interactively.

Based on the case study, we divide key success factors of Walmart.com, Jcp.com and Landsend.com into three parts, diverse and personalized products and service, various integration strategies and Web 2.0 technology application. Tab. 1 details these success factors and firms’ strategies.

**Table 1 Key Success Factors of Online Channel in the Three Firms**

<i>Successful factors</i>  <i>Firms</i>	<i>Type of Merchandise</i>		<i>Integrated Strategy</i>				<b>Technology</b>	
	Diversity	Personalization	Pricing	Service	Brand Image	More Information	Virtual Community	
Wal-Mart.	1 Million Products, Containing Type of Grocery and Pharmacy	Customer Favorites	Low Price Online	Site to Store Service	Second Hand Market	Customer Review	Classifieds	
J.C.P.	250,000 Products	Products Suggestion; Gift for Special Occasion; Customer Profile	Integrated Price	Store Registers Online “Know Before You Go”	Same Marketing Team	Customer Review	Comments on products Social network (Facebook, Twitter, Youtube) using	
Landsend	Clothing for the family, Soft luggage, and Products for the home	Custom-made Clothing	Integrated Price	View and Subscribe the Catalog from Website	Dependable High Quality Merchandise	3D Customer Model	Online chat; Affiliate network	

## 4. Findings

### 4.1 Factors of Multichannel Retailing Success

#### 4.1.1 Type of Merchandise and Services

##### Offer Diverse Products

In our examination, the three firms all provide diverse products to make the online channel as one real store. Therefore, customers may have more options and comparisons between the Internet and in store.

##### Personalization of Preferences for Products and Services

Personalization allows retailers to track online customers' preferences and create personal and unique products and services (Zhu and Kraemer 2002). For example, Dell.com and Gateway.com provide product specifications and enable consumers to customize configurations.

BestBuy.com established Spanish website for Spanish speakers can shop in their own language. More apparel online retailers are able to recommend products matched online customers' preference. Using this strategy, multichannel retailers enable to attract new customers online shopping.

#### **4.1.2 Integrated Online Channel with Traditional Channel**

Yan (2010) brought up an issue: "Should firm integrate their Internet business with their traditional business or should firm keep the two separate?" In terms of Porter (2001)'s research, companies do need to distinguish themselves, but must achieve this through effective complementary strategy with their existing business. Berman and Thelen (2004) had same opinion that firms need to integrate online channel with the existing channels.

And as noted in the case study, it is clear that the integrated strategy is the key factor to gain obvious chances for success by providing the same brands as well as maintaining strategies, such as in price, service, and image.

##### **Integrated Price**

Retailers in multiple markets try to set different prices for the same merchandise to integrate channels. For example, Barnes & Noble.com offers lower prices in its online channel than its stores to compete effectively against Amazon.com. Some of them offer discounted price in one certain channel to encourage customers to shop in there (Kumar and Venkatesan 2005). For instance, PetSmart prints \$10 coupons on store receipts that are valid only for online purchases. Price incentives are the primary mechanisms used by retailers to encourage customers to use multiple channels.

##### **Integrated Service**

As the web creates a vehicle by which companies can enhance customers' service experiences, Griffith and Varadarajan (2008) mentioned that the web service is another factor for firms achieve excellence. The return policy adopted for many retailers is the example to expand customer service through the multichannel. The integrated service enables online customers to pick up or return their orders in traditional stores. For apparel retailers, they will increase \$75-\$80 additional sales in the return process (Speer, 2006).

##### **Integrated Brand Image**

The traditional firms always have operation philosophy as their brand culture in customers' opinion. They also more aggressively enhance their overall brand awareness in online channel (Berger et al. 2006). For example, Walmart.com has built a second hand market on the Internet to offer low price information of cars, rent, real estate for customers, elevating "Save Money, Better Life" brand image online.

#### **4.1.3 Technological Capability Development**

##### **More Information to Evaluate Merchandise**

Song and Zinkhan (2008) indicated that the level of personalized and diverse information increases, interactivity perceptions and site effectiveness are enhanced, as the liner relationship. The success retailers always provide more information to help customers make better buying decision on the Internet. For instance, Bestbuy.com always puts the similar products in one page for customers comparing side by side. Some retailers integrated with call center with experts for online customers' best shopping. The more information of products retailers provide, the more confidence customers have.

##### **Virtual Community for Online Customers**

With the development and application of Web 2.0 technology, retailers enable to build virtual community, such as social network Facebook, Twitter, blog and RSS feeds to add the characters of social activity into their

web site (Griffiths & Howard, 2008). For customers, it overcomes online channel limitations compared with traditional shopping environment and induces the pleasure for customers shopping via the Internet. Customers are able to share web experience, transfer discount information, and show or exchange the products purchasing online (Chen 2012). For retailers, virtual community is more effective to serve their customers (Rangaswamy 2005) and becomes an important competition advantage in future (Wang et al. 2007).

## 5 CONCLUSIONS

Based on a case study examination of a few prominent retailers, we found that diverse and personalized products and service provided online, various integration strategies, and Web 2.0 technology application are the key success factors for multichannel retailing using the Internet.

For retailers, our analysis yields some insights. First, retailers should consider expanding their products or service categories. Moreover, they should explore methods for personalizing their products and services and also, offer special products available only to online shoppers. Second, retailers must coordinate their strategies, activities and process across their different channels. As we noted earlier, establishing an integrated shopping environment with existing channels is key to success in multichannel retailing. Prominent retailers in traditional market can increase their chances for success by providing the same brands as well as maintaining strategies, such as in price, service, and image. This would enable them to more effectively signal their existing store image and attract new customers to their online channel. Finally, with the Web 2.0 changing online retailing in fundamental and critical ways, retailers must be aware of new media tools that are emerging, such as social network, blog, RSS feeds and customer reviews. Capitalizing on them, retailers can enhance interactivity and enliven an otherwise boring online shopping experience of customers.

However, our analysis was only exploratory in that we identified three specific companies based on their initial retail operations and conducted a secondary analysis based on published information. Given the fact that multichannel retailing is still an under-researched area, the case study methodology used provided some key insights on the factors that can be considered important to a retailer's success in multichannel strategy using the Internet.

Future research could build on the insights developed from the case study to construct conceptual frameworks that can be tested among a large number of multichannel retailers.

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