Challenges in Omnichannel Business

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Challenges in Omnichannel Business

Session chair

Maarten J. Gijsenberg (University of Groningen)

Included papers

1. **Promoting Returns? Side-Effects of Price Discounts on Customer Purchase and Return Behavior**
   Christian F. Hirche (University of Groningen) – presenter
   Tammo H.A. Bijmolt (University of Groningen)
   Maarten J. Gijsenberg (University of Groningen)

2. **The Impact of Adding a Brick-And-Mortar Brand Store on the Performance of the Manufacturer's Online Webshop and Multi-Brand Retail Stores**
   Michiel van Crombrugge (Erasmus School of Economics, Rotterdam)
   Els Breugelmans (KU Leuven) – presenter
   Florian Breiner (Universität zu Lübeck)
   Christian Scheiner (Universität zu Lübeck)

3. **Forced Migration from Offline to Mobile and Online Channels, Its Impact on Churn, Channel Choice and Purchases: A Field Experiment**
   Anastasia Dikareva-Brugman (University of Amsterdam) – presenter
   Umut Konus (University of Amsterdam)
   Jonne Y. Guyt (University of Amsterdam)

4. **Should All Brands and Customers Be Multichannel? Development of a Brand, Customer, Channel taxonomy**
   Lisan Lesscher (University of Groningen) – presenter
   Lara Lobschat (University of Münster)
   Katherine N. Lemon (Carroll School of Management, Boston College)
   Peter C. Verhoef (University of Groningen)

Session Abstract

This session addresses 4 challenges firms may face in omnichannel business. They range from tactical – promotions and opportunistic product returns – over more strategic – adding a retail channel, forced channel migration of customers – to the most fundamental omnichannel question – to be or not to be omnichannel. Insights come from a diverse set of rich data from both retail and services, thus acknowledging that omnichannel is now a widely prevalent business model.

1. **Promoting Returns? Side-Effects of Price Discounts on Customer Purchase and Return Behavior**

   Christian Hirche, Tammo Bijmolt, Maarten Gijsenberg

This study addresses opportunistic product returns: returns by customers who bought a product just before a discount was offered in order to re-purchase it at the lower, discounted price. It provides insights on cross-product opportunistic returns, promotion depth influence, opportunistic return prevalence across product categories, and customer learning effects.

2. **The Impact of Adding a Brick-And-Mortar Brand Store on the Performance of the Manufacturer's Online Webshop and Multi-Brand Retail Stores**

   Michiel van Crombrugge, Els Breugelmans, Florian Breiner, Christian Schreiner

This paper investigates the impact of opening a brand store by a manufacturer on its own online channel sales, and on partner retailer channel sales. It decomposes online sales changes in first time/repeat online customers changes, in online order frequency/size changes and shows how the online order composition changes. It also looks at net sales and profit implications for the manufacturer.

3. **Forced Migration from Offline to Mobile and Online Channels, Its Impact on Churn, Channel Choice and Purchases: A Field Experiment**

   Anastasia Dikareva-Brugman, Umut Konus, Jonne Guyt

This study focusses on customer migration from offline to mobile channels, the latter currently being the main customer-firm service interface platform for many firms. It thereby specifically investigates how forced channel migration affects customer churn, channel choice and additional purchases in subsequent stages. Finally, it explores channel migration in an after-sales context in a contractual-services settings.

4. Should All Brands and Customers Be Multichannel? Development of a Brand, Customer, Channel taxonomy

Lisan Lesscher, Lara Lobschat, Katherine Lemon, Peter Verhoef

This paper investigates whether using multiple retail channels (by the brand or customer) is always more effective than a single channel strategy, and to what extent which type of channel (or channel combination) contributes to revenues across brands and customer loyalty tiers. It thereby develops a brand, customer and channel taxonomy, indicating which type of channel (or channel combination) works best for which customer-brand combination(s).

Included Papers

1. Promoting Returns? Side-Effects of Price Discounts on Customer Purchase and Return Behavior

Christian F. Hirche (University of Groningen), Tammo H.A. Bijmolt (University of Groningen), Maarten J. Gijsenberg (University of Groningen)

Price promotions are a frequent phenomenon, both in offline and online retailing. A large stream of research has investigated its effect on retailers and consumers. A range of effects has been identified: positive sales-driving effects on the short-term and neutral or negative effects, such as changing price and brand perception, on the long-term (e.g. Blattberg, Briesch, and Fox 1995; Rao 2009). Until recently, however, research on price promotions lacked to integrate product returns into the picture, thereby likely over-estimating positive short-term effects of price promotions in the context of online retailing. Product returns are an important cost driver in online retailing (Minnema et al. 2018) and higher returns will counter the effects of the higher sales induced by lower prices. When taking returns not into account, the evaluation of the usefulness of price promotions therefore risks to be biased in favor of doing promotions, even though it has no beneficial effect for the retailer.

A recent working paper by Bandi et al. (2018) is the first show that price decreases indeed appears to incentivize customers to return more, a phenomenon they dubbed "opportunistic returns" (Bandi et al. 2018). This is because customers who bought the product just before the discount can obtain savings by returning the product – in order to re-purchase it at the lower, discounted price. Thereby, opportunistic returns enable customers to profit from a price promotion even when their purchase falls before of the promotion window. While the study by Bandi et al. is the first to show the existence of this phenomenon, it has the shortcoming of not investigating product and customer characteristics, making it hard to say what are the drivers of opportunistic returns. Furthermore, their focus on one single product category makes it hard to estimate the breadth of the phenomenon. We aim to address these issues and provide a more complete picture of opportunistic returns with high practical relevance for online retailers.

In particular, we will investigate the following: (1) Cross-product opportunistic returns. Customers strive to obtain a better deal by making use of opportunistic returns. While this holds for returning and re-purchasing the same product, it should hold even more so for substitutional products. In particular, if a substitutional product is regularly priced higher but due to the promotion becomes cheaper than the customer's prior purchase, customers could

obtain higher utility *and* lower cost by returning their purchase and purchasing the promoted substitute. This should render opportunistic returns across products even more attractive and prevalent than for the same product. (2) The influence of promotion depth on opportunistic returns. Returning takes time and effort so the possible savings of doing so need to be high enough. Prior research on product discounts suggests that there is no linear mapping of discount level to discount attractiveness in the customer's mind (Gupta and Cooper 2002), possibly translating into both a threshold and saturation effect for the influence of promotion depth on opportunistic returns. (3) The prevalence of opportunistic returns across important product categories. Product in different categories vary e.g. in the ability to stock-pile, whether they are seasonal or not and whether they are bought for hedonistic or utilitarian reasons. Therefore, opportunistic returns might be an issue in some categories but not in others. (4) Learning effects of customers. Customers with a history of opportunistic returning might be more likely to engage in opportunistic returning in the future, similar to learning effects for returns in general (Petersen and Kumar 2015).

In our study, we aim to provide a clearer picture of opportunistic returns with important practical implications for online retailers. Theoretically, we aim to fill a missing piece of the literature on price promotions when dealing with product returns. Surprisingly, research has been scarce on the effect of price promotions on returns, even though the return rate is critical for profitability of online retailers (Minnema et al. 2018).

To empirically study our research propositions, we use a unique dataset of a large Dutch online retailer. The retailer's assortment consists of a broad range of products in various product categories, such as fashion, beauty, electronics, and furniture. The dataset contains all customer transactions over the course of the last 3 years, including detailed order and product information, and daily product pricing information over the 3-year period. We will analyze the data using several statistical models, including random/fixed effects models and initial insights proved to be promising, warranting further analysis.

2. The Impact of Adding a Brick-And-Mortar Brand Store on the Performance of the Manufacturer's Online Webshop and Multi-Brand Retail Stores

Michiel van Crombrugge (Erasmus School of Economics, Rotterdam), Els Breugelmans (KU Leuven), Florian Breiner (Universität zu Lübeck), Christian Scheiner (Universität zu Lübeck)

While the rise of e-commerce drove many brands to online direct selling at first, the increasing importance of omni-channel has spurred the trend of manufacturers opening brick-and-mortar brand stores in an attempt to more closely interact with consumers, reach more consumers and generate larger sales revenue. These physical brand stores are owned and operated by the manufacturer itself, carry only the manufacturer's brand and have the intention of profitably selling its products directly to the end-consumer (Dolbec & Chebat, 2013). Examples can be found in a variety of sectors, such as apparel (e.g., Adore Me, Nike), toys (e.g., Lego), domestic appliances (e.g., Dyson) and even FMCG categories such chocolate (e.g., Lindt) and skin care (e.g., Nivea).

The opening of physical brand stores is a next step in the manufacturer encroachment strategy, where manufacturers provide consumers with a new direct sales channel, next to the existing sales network (Arya, Mittendorf, & Sappington, 2007). It is often an attempt to further lower the dependence on intermediaries such as retailers whose added costs and limited flexibility (constraints on the depth and breadth of the assortment) may exceed the value they provide. Next to impacting the supply chain members' sales (retailers as intermediary partners), brand stores may also impact the manufacturer's other own direct selling channels (often the manufacturer's online webshop). We extend the prior channel addition literature by focusing on the impact of the opening of the *brand store* on its *own online channel sales* (horizontal channel addition), as well as on its *partner retailer channel sales* (vertical channel addition). Prior channel research was restricted to within- or between-firm impacts (Avery et al., 2012), while brand stores' unique context demands an investigation of both. Moreover, by choosing the FMCG sector as the empirical setting, we are the first to consider a product that not necessarily requires touch, feel and fit.

We further contribute to the existing literature, by gaining an understanding in where the changes in sales of the incumbent online direct channel come from. More specifically, we use brand store capabilities to decompose online sales changes in changes of first time and repeat online customers, in changes in online order frequency and online order size and zoom in on how the composition of the online order changes. Doing so allows us to investigate whether the brand store triggers different reactions on new customers vs. those that have experienced the brand before; whether consumers order more or less frequently and with smaller or bigger baskets; and whether some products are more or less likely to be added to the online basket.

Third, companies should be interested in the total effect that a brand store exerts, factoring in the sales impact it has on the incumbent channels plus the own sales the brand

store generates. This way they gain an understanding on the net impact of the brand store entry on top-line revenue. Still, it is naïve to assume that costs and margins are similar across all channels in the manufacturer's portfolio (Pauwels & Neslin 2015). Hence, an important contribution of this paper is to shed light on the bottom-line (profit) performance of the firm when opening a brand store.

We investigate these research questions, using data of the opening of ten brands stores by a national brand manufacturer of breakfast cereals in Germany, that offered its products via an own manufacturer's online webshop and the traditional independent retail network too. Using a rich combination of unique performance data of these different channels, we investigate brand store entry via a before-and-after-with-control-group analysis with synthetic control.

Our results show no significant evidence of a business-stealing effect of brick-and-mortar brand stores on multi-brand retailer sales. The between-firm impact of a brand store therefore is limited at best. Instead, we find significant evidence of within-firm cannibalization, as the brand store entry caused a significant decrease in the online direct channel's sales. A split-up between online sales coming from repeat and first-time customers reveals that this loss in sales is larger for customers who bought online before, whereas the sales drop of first-time customers is much more limited. We furthermore find that it are especially online order baskets that become smaller and not so much the order frequency, suggesting consumers rather order less per time. Zooming in on the basket composition, we observe that orders especially decrease for those items that are (also) available in the brand store but not for items that can be bought exclusively in the online store. These findings suggest that a brand store seems to cannibalize especially those consumers who are brand fans already, and this for items that are instantly available in the store without additional delivery fees.

While we show that the physical manufacturer channel mostly cannibalizes its own online channel, posterior analyses of brand store revenue reveal that any lost sales in the incumbent channels are more than compensated by the brand store sales itself. The brick-and-mortar store thus seems to generate additional primary demand that the incumbent channels were not able to capture before. Nevertheless, taking into account the operational costs of the brand store reveals that top-line growth not always suffices to preserve the bottom line.

3. Forced Migration from Offline to Mobile and Online Channels, Its Impact on Churn, Channel Choice and Purchases: A Field Experiment

Anastasia Dikareva-Brugman (University of Amsterdam), Umut Konus (University of Amsterdam), Jonne Y. Guyt (University of Amsterdam)

The rapid expansion of technology has resulted in the proliferation of channels and touch points used by firms on online and offline platforms of customer-firm interface. Today, most firms use online and mobile channels alongside with traditional offline channels in order to reach their customer base efficiently during relational processes (Lemon and Verhoef 2016). To develop a multichannel strategy, firms need to decide which channels to introduce and which channels to eliminate (Verhoef 2012). If a firm employs a certain multichannel strategy, with a strong focus on particular channels, it is likely that it would like to "right-channel" customers into those channels (Verhoef 2012). However, the way in which firms are employing the "right-channeling" may differ (Trampe, Konuş, and Verhoef 2014). Some companies are ready to eliminate non-profitable or cost-ineffective channels and make customers switch to another available channel or channels. The examples of such forced migration strategy are Tesla's decision to move all of its sales online (Tesla 2019) and L Brands', the parent company of Victoria's Secret, decision to eliminate its catalogue in 2016 (Liu, Lobschat, and Verhoef 2018). Other firms keep all channels available and employ the "right-channeling" in a form of incentive- or non-incentive strategies. For example, Fido, a Canadian mobile service provider, has recently employed a punishment-based reinforced migration and has started charging customers $10 per call or live chat for services that are already available online or on the self-service app (Fido 2019). Recently, IKEA has steered customers online by cancelling automatic delivery of the printed catalogue to customers and creating a digital catalogue that is available both on the firm's website and the mobile app (IKEA 2019). However, despite the increasing industry trend to employ "right-channeling" strategies, only a few studies investigate the effects of forced and reinforced channel migration to the online channel in experimental settings (Reinders et al. 2008, Trampe et al. 2014, Heurhasen et al. 2012) and only one study empirically investigates the impact of channel elimination (Konuş et al. 2014). However, Konuş et al. (2014) merely focus on online-offline purchase channels in a condition where offline search channel (i.e. catalog) is eliminated. Furthermore, despite the growing interest in mobile websites and apps, there is a lack of research on forced and reinforced migration to mobile channels, as most studies explore migration from offline to online. Finally, most of studies focus on search and

purchase functions of channels and the after-sales channels have received very limited attention (Verhoef 2012).

Our study is the first study in the literature that contributes to knowledge on customer migration from offline to mobile channels which is now the main customer-firm interface platform for many firms in their service channels environment. Next, we compliment the empirical findings on the impact of channel elimination on customer behavior. Specifically, we investigate how forced channel migration affects customer churn, channel choice and additional purchases in subsequent stages. Finally, we explore channel migration in an after-sales context in a contractual-services settings, which makes this study novel for multichannel management and channel migration literature.

In this research, we aim to investigate the simultaneous impact of mobile channel introduction and the elimination of an offline channel (i.e., call center) on customer behavior to address the following questions:

(1) What is the impact of simultaneous offline channel elimination and mobile channel introduction on churn rates, additional purchases and profits per customer?

(2) What is the impact of offline channel elimination on subsequent channel choices?

(3) Do customer behavioral and profile characteristics (e.g., relational history) moderate the impact of channel migration on customer responses?

(4) Do the effects of channel elimination on customer behavior evolve over time?

We use individual-level transactional and contact-based field data from a large-scale multichannel European insurance provider with a 40-month time-span. Our results reveal that elimination of the call center channel and forced migration to mobile-channel has an immediate effect on customer-churn and moreover customer channel choice and policy purchases are also influenced by this transition, whereas these effects are found to be alleviated over time through customer learning process.

4. Should All Brands and Customers Be Multichannel? Development of a Brand, Customer, Channel taxonomy

Lisan Lesscher (University of Groningen), Lara Lobschat (University of Münster), Katherine N. Lemon (Carroll School of Management, Boston College), Peter C. Verhoef (University of Groningen)

The number of retail channels available to consumers for conducting purchases is steadily growing (e.g., Marketing Science Institute 2018-2020). This provides firms with opportunities for better reach and more convenience for consumers on the one hand, but also substantially

increases complexity for multichannel management. Findings from existing studies predominately support the notion that a multichannel (vs. a single-channel) strategy (i.e., using multiple channels for purchase) is more effective with multichannel customers being more profitable compared to single-channel customers (e.g., Montaguti, Neslin & Valentini, 2016; Kumar, Bezawada & Trivedi, 2018). However, current multichannel studies have not unpacked what happens if (1) a firm offers multiple brands, (2) when customer heterogeneity is considered (e.g., by taking into account customers who differ on their loyalty status), and (3) when investigating differences across retail channels (e.g., firm-owned vs. partner-owned). By taking these aspects into account, we try to contribute to both theory and practice by developing a brand, customer, channel taxonomy that provides insights into which channel (or combination of channels) works best for which customer-brand combination(s).

First, current multichannel studies focus on a single brand, whereas many firms offer multiple brands within and across multiple product (and or service) categories (i.e., multi-brand companies; see Leone et al., 2002). This is true especially in industries like the travel industry, the airline industry, the banking industry, the FMCG industry (e.g., P&G), the insurance industry, and the car industry. Hence, for marketing managers in these industries, the multichannel literature does not provide any guidance on how to operate multiple brands across an increasing portfolio of possible retail channels. The same is true for the customer management literature. Most studies focus on a single brand and investigate how their customer management practices affect loyalty and purchase outcomes. Although Ambler et al. (2002) and Leone et al. (2006) acknowledge the importance of considering the interface between customer management and brand management, it is largely neglected in current studies. Therefore, this study will investigate how a multichannel (vs. a single channel) strategy affects revenue outcomes and how this is moderated by the presence of multiple brands of the same firm. The different brands (of the same firm) differ in service and/or price levels and serve as alternatives for consumers, although consumers can also buy multiple brands from the same firm.

Furthermore, there are differences between customers, which will also be taken into account. The effect of multichannel on revenue outcomes will not only be moderated by brands, but also by the loyalty tier the customer resides in. From the literature we know that loyalty affects consumers' purchase likelihood as well as the way consumers interact with the firm (e.g., Liu, 2007). Hence, we expect that loyalty in the interplay with the different brands available to a consumer and the retail channels s/he uses for purchase need to be taken into account. Lastly, we acknowledge that to the best of our knowledge current multichannel

studies mainly focus on firm's owned channels (e.g., telephone, catalogue, firm website) despite the rise of digital platforms (i.e., partnered channels) (DMN, 2019). Their role and contribution within a multichannel strategy is, however, unclear. Our study will provide first insights into the effects of these partner-owned channels.

In sum, we investigate the following: (1) whether using multiple retail channels (by the brand or customer) is always more effective than a single channel strategy by studying multichannel effectiveness across brands and loyalty tiers, and (2) to what extent which type of channels (or combinations of channels) contribute to the revenue outcomes across brands and customer loyalty tiers. By investigating the last research question, we intend to provide a brand, customer and channel taxonomy, which indicates which type of channel combinations contribute most to revenue outcomes for which type of brand and customer (e.g., high end brand with low tier customer). Overall, our contribution to existing research is as follows: First, we contribute to the multichannel literature by investigating purchase outcomes over different brand tiers and loyalty tiers. Second, we contribute to the customer management literature by studying how a multichannel strategy affects revenue outcomes across multiple brands at the individual customer level. Third, we contribute to the multichannel literature by investigating not only firm-owned channels, but also the partner-owned channels, such as digital platforms (e.g., Booking.com). This also allows us to contribute to the literature on digital platforms and digital business models by integrating the multichannel literature with this new literature and provide insights into the multichannel effectiveness when using partner-owned channels.

In order to study our research idea, we make use of unique data from a large international hotel group, the Intercontinental Hotel Group (IHG). IHG is a multibrand firm with multiple brands (i.e., hotels) which differ on their service and/or price levels. The data comprises longitudinal, transactional data for a sample of IHG customers in their loyalty program. For each booked stay with the hotel group (i.e., purchase), we have information on the loyalty tier of the customer, what brand was purchased, and which channel was used to conduct the purchase. Furthermore, we have information on the revenue outcomes per purchase. We analyze our data using multiple types of models, such as a fixed effects model, in order to provide insights in our research questions.

Overall, the initial results indicate that multichannel is more effective, but not always. We show that in most cases multichannel customers (vs. single channel customers) are effective in terms of revenue. However, multichannel customers are less effective for the higher-level brands and loyalty tiers. When digging deeper we see that different channels

work better for different customer-brand combinations, which allows us to construct a brand, customer, channel taxonomy. This taxonomy provides insights into which channel (combination) works best in terms of revenue for which customer-brand combination(s). Our study contributes to both theory and practice by further unpacking multichannel effectiveness by considering multiple brands, customer heterogeneity and partner-owned channels. This enables firms to get a deeper understanding of the effectiveness of the multichannel marketing strategy.

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