

**RETAIL MANAGEMENT – LECTURE 3**  
**CHAPTER 3 – MULTI CHANNEL RETAILING**

**Overview**

An examination of the three primary channels through which retailers can communicate with and sell merchandise and services to their customers from a strategic perspective is presented. First, a brief overview of all retail channels is provided, followed by a discussion of the distinct advantages that each of the three major channels provides to consumers. Then discuss the reasons why retailers should offer a multichannel offering, as well as the advantages that retailers gain from offering a multichannel offering. Following that, it discusses the difficulties multichannel retailers face in utilizing these channels in a synergistic manner and providing a seamless multichannel experience for their customers. After that, it shows how integrating these channels and employing new technologies will create a compelling shopping experience for customers going forward in the chapter. All throughout the remaining chapters of the textbook, the author discusses the role of the Internet in retailing. Managing employees, purchasing merchandise, managing customer relationships, advertising and promoting merchandise, and providing customer service are just a few examples of the many applications available.

**Desired Learning Outcomes**

1. Provide the unique customer benefits offered by the three major retail channels: stores, catalogs, and the internet.
2. Explain why the retailers are moving toward using all the three channels to interact with the customers.
3. Explain the key benefits and challenges in providing multichannel offerings.
4. Discuss how technology affect the future multichannel base on customer shopping experience.

## **MULTICHANNEL RETAILING**

### **Learning Objective 1 - Retail Channels**

Multiple channels of distribution are used by an omnichannel retailer to sell merchandise or services. Retailers can take advantage of the distinct advantages provided by each channel by combining a number of them. When a retailer sells and delivers merchandise and services to its customers, they are referred to as the retail channel. Among retailers, the store is the most frequently used channel. Retailers also use a variety of nonstore channels to reach their customers, including the Internet, catalogs and direct mail, direct selling, television home shopping, and automated retailing.

#### ***Internet Channel***

Retailing over the Internet is referred to as Internet retailing, electronic retailing, and e-commerce. It is a type of retail channel in which the offering of products and services for sale is communicated to customers via the Internet. The retail industry was predicted to be dominated by a new breed of high-tech, Web-savvy entrepreneurs a decade ago by retail experts. All of the people would be doing their shopping through the Internet.

#### **Catalog Channel**

It is a non-store retail channel in which the retail offering is communicated to customers through a catalog that is sent to the customer's home address. Every year, approximately half of all consumers in the United States shop through catalogs. Pharmacies and beauty aids, computers and software, clothing and accessories, furniture and housewares, and books, music, and magazines are the merchandise categories with the highest catalog sales.

#### **Direct Selling**

Customers interact with salespeople face-to-face in a convenient location, such as the customer's home or place of employment, in direct selling. Direct salespeople demonstrate

the benefits of a product and/or explain a service; they then take an order and deliver the merchandise to the customer. Direct selling is a highly interactive retail channel in which customers receive a great deal of information through face-to-face discussions with sales representatives. Providing this high level of information, which includes extensive demonstrations, is, however, prohibitively expensive.

**Asked Students:** Why are Retailers Using Multiple Channels to Interact with Customers?

**Answer:**

Customer wants to interact in different ways. Each channel offers a unique set of benefits for Customers

**Why are Retailers Using Multiple Channels to Interact with Customers?**



Two special types of direct selling are the party plan and multilevel systems.

1. Party plan system - Customers are encouraged to act as hosts and invite friends or coworkers to a "party" hosted by salespeople. The host or hostess is compensated with a gift or a commission for organizing the event. At the party, the merchandise is displayed and attendees are given the opportunity to place orders. In a multilevel network, a party plan system can be used, but it is not required to be done so.

2. Multilevel system, Independent businesspeople act as master distributors, enlisting the help of others to join their network of distributors. The master distributors either purchase merchandise from the firm and resell it to their distributors, or they receive a commission on all merchandise purchased by the distributors in their network, depending on the arrangement with the firm. The master distributors are also involved in the recruitment and training of other distributors, in addition to selling merchandise themselves. Some multilevel direct selling companies are pyramid schemes, which are against the law. When a company and its program are designed to sell merchandise and services to other distributors rather than to end users, a pyramid scheme is formed. In pyramid schemes, the founders and initial distributors profit from the inventory purchased by later participants, but only a small amount of merchandise is sold to consumers who use the scheme.

### **Television Home Shopping**

The term "television home shopping" refers to a retail channel in which customers watch a television program that features a product demonstration and then place orders for that product, usually by phone, via the Internet, or using the television remote control

The three forms of TV home shopping retailing are

- (1) cable channels dedicated to television shopping,
- (2) infomercials,
- (3) direct-response advertising.

**Infomercials** are programs that are typically 30 to 60 minutes in length that combine entertainment with product demonstrations before soliciting orders over the phone from viewers.

**Direct-response advertising** includes one- to two-minute advertisements on television and radio that describe products and give consumers the opportunity to place orders for those products

### **Automated Retailing**

Retailing in which merchandise or services are stored in a machine and dispensed to customers when they make a cash deposit or use a credit card is known as automated retailing (AR). Vending machines, also known as automated retailing machines, are typically located in high-traffic areas that are convenient for customers, such as in places of business or on college campuses. Cold beverages, candy, and snacks account for the vast majority of sales in automated retailing.

### **Learning Objective 2 - Benefits Offered by the Retail Channels**

#### **Store Channel**

Customers who shop in stores receive a number of advantages over those who shop through non-store channels such as catalogs or the Internet.

#### **Touching and Feeling Products**

The ability for customers to examine and evaluate products using all five senses (touching, smelling, tasting, seeing, and hearing) is perhaps the most significant advantage provided by stores. Although new technologies such as 3-D can improve representations of products on a computer screen, these visual enhancements do not provide the same level of information that customers receive when they physically try on a swimsuit or smell the fragrance of a candle in person.

#### **Benefits Provided by Different Channels**

**Personal Service** - Despite the fact that consumers frequently express dissatisfaction with the level of personal service they receive in stores, sales associates retain the unique ability to provide meaningful, personalized information. They can tell customers whether or not a suit looks good on them, recommend a tie to go with a dress shirt, or answer questions about what to wear to a business-casual event that customers may have.

**Risk Reduction** - The ability to evaluate products using all five senses, as well as the ability to receive personalized information, increases the likelihood that consumers will be satisfied with their purchases. As an added bonus, the store's physical presence reduces perceived

risk and increases customers' confidence that any issues with a purchase will be resolved. When dealing with defective or unsuitable merchandise, customers can easily get in touch with store personnel who can help them resolve the issue or provide additional information on how to use a product.

**Immediate Gratification** - The merchandise can be picked up by customers immediately after they purchase it from a retailer. As a result, when customers have a fever or require a last-minute gift, they do not have to wait more than a day or two for the delivery of a prescription from Drugstore.com or the delivery of a gift from Amazon.com to arrive.

**Entertainment and Social Experience** - For some people, shopping in-store can be a stimulating experience that allows them to take a break from their daily routine while also interacting with their social circles. None of the nonstore retail formats can fully satisfy these entertainment and social needs to the extent that they are currently available.

**Browsing Shoppers** - The majority of the time, people have a general idea of what they want (a sweater, something to eat for dinner, a gift), but they do not know what specific item they want. As a result, they visit a store to see what is currently available before making a purchase. Despite the fact that some consumers browse the Web and look through catalogs for inspiration, the majority of consumers still find it more convenient to browse in stores.

**Cash Payment** Consumers can only make cash payments in stores, which are the only places where they can do so. Some customers prefer to pay with cash because it is faster, it resolves the transaction immediately, and it does not result in potential interest payments or excessive debt. Others prefer to pay with cash because it is more convenient. Customer's who have concerns regarding credit card or debit card security and identity theft prefer to use their credit card or debit card in person rather than sending their payment information electronically via the Internet.

### ***Catalog Channel***

Customers benefit from the catalog channel in a variety of ways, including safety and convenience, which are not available through any other nonstore channel. Catalogs, on the other hand, have some distinct advantages over other non-store formats in terms of convenience.

**Safety** Many shoppers, particularly the elderly, are becoming increasingly concerned about their safety in shopping malls and shopping areas. Customers can review merchandise and place orders from the comfort of their own homes through nonstore retail channels.

### **Internet Channel**

Catalogues and other non-store formats are available for purchase through the Internet, providing the same security and convenience as in-store purchases. Although the Internet has the potential to offer a greater selection of products and more personalized information about products and services when compared to traditional store and catalog channels, it is still in its early stages

### **Learning Objective 3 – Benefits of Multichannel Retailing**

Overcoming the Limitations of an Existing Format

#### **Increased Assortments**

Retailers can better satisfy their customers' needs by utilizing a combination of channels, taking advantage of the advantages of each channel while overcoming the shortcomings of each channel. For example, one of the most significant constraints faced by store-based retailers is the size of their stores themselves. Due to the low cost of computer memory, the number of SKUs that can be offered through an Internet channel is virtually limitless. In addition, when comparing the Internet channel to a store channel, the inventory required to support each SKU offered is lower in the Internet channel because the inventory supporting

the Internet channel is consolidated in a small number of distribution centers rather than a large number of stores in the store channel.

### **Low-Cost, Consistent Execution**

Another limitation of the store channel is that it executes at a high cost but with inconsistent results. In-store sales associates can provide customers with personalized information about products and services. Sales associates can learn what customers like and want by interacting with them on a regular basis. Select a few outfits and schedule an appointment to show these outfits to customers. They can even bring the outfits to the customer's place of business or home. Customers, on the other hand, can only take advantage of this benefit if the sales associates are present. Furthermore, providing it on a consistent basis is expensive. In addition to being time-consuming, training and maintaining knowledgeable sales associates are also expensive, and even the most successful sales associates have bad days.

### **Current Information**

The use of electronic channels by catalog retailers helps them overcome the limitations of their printed catalogs. Once a catalog has been printed, it is no longer feasible to keep it up to date with the most recent price changes and new merchandise. As a result, Lands' End makes use of the Internet to provide customers with real-time information about stock availability and price reductions on clearance merchandise, among other things.

### **Increasing Customer Satisfaction and Loyalty**

Concentrating on the purpose for which a set of products will be used, storebased retailers can offer solution Web sites that encourage customers to view more products than they would have otherwise thought about purchasing.

### **Gaining Insights into Consumer Shopping Behavior**

When it comes to customer satisfaction and dissatisfaction with their shopping experiences, an electronic channel can provide valuable insights into how and why they shop. This

information about how customers shop in a particular store or merchandise category is useful when designing retail stores or Web sites for a particular product category.

### **Expanding Market Presence**

When it comes to store-based retailers, the market is typically restricted to consumers who live in close proximity to the retailer's stores. Retailers can expand their market without having to build new stores by incorporating an online channel into their business. Adding an electronic channel is particularly appealing to retailers who have established brand names but only a limited number of locations and distribution capabilities.

#### **Establishing a Competitive Advantage**

Multichannel retailers have the potential to gain a competitive advantage over their single-channel counterparts by developing a strategic advantage. Two strategic resources that multichannel retailers have that are difficult to detect or duplicate by store-based, single-channel competitors are (1) proprietary information about customer purchase history and (2) providing information to help customers complete do-it-yourself projects. Home Depot continues to improve customer satisfaction by providing information to help customers complete do-it-yourself projects. Shoppers' shopping habits, as well as (2) specialized "how-to" knowledge about coordinating operational activities across multiple channels.

### **Learning Objective 4 – Other Multichannel Retailing Issues**

#### **Which Channel Has the Lowest Costs?**

As opposed to selling merchandise through a physical store, many people believe that retailers incur lower costs when selling merchandise through an electronic channel. When selling merchandise through the Internet channel, retailers avoid the costs of constructing and operating retail stores, as well as the costs of compensating employees who work in those locations. Customers expect lower prices for merchandise sold through the Internet channel because they believe the costs associated with that channel are lower than those associated with other channels. Internet retailers, on the other hand, incur significant costs in the design, maintenance, and refreshment of a Web site; attracting customers to the site; maintaining distribution systems and warehouses dedicated to fulfilling orders from

## **Retail Management**

### **Chapter 3**

#### **MULTI CHANNEL RETAILING**

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individual customers; and dealing with a high volume of returns. These overhead costs associated with operating an electronic channel may even be greater than the costs associated with operating a physical store, depending on the circumstances.

#### **Will Manufacturers Bypass Retailers and Sell Directly to Consumers?**

When a manufacturer sells directly to consumers, rather than through a retailer, this is known as disintermediation. The disintermediation of commerce is a source of concern for retailers because manufacturers can gain direct access to their customers by establishing a retail site on the Internet. 29 The company's printers and accessories are sold both directly to consumers through its Web site ([www.hewlettpackard.com](http://www.hewlettpackard.com)) and indirectly through retailers like Office Depot's stores and its Web site ([www.office depot.com](http://www.office depot.com)) ([www.officedepot.com](http://www.officedepot.com)). The majority of manufacturers, on the other hand, lack the necessary skills to sell directly to consumers. They are not as effective as retailers at performing the functions associated with retailing.

#### **Learning Objective 5 – Challenges of Effective Multichannel Retailing**

Making Shopping More Convenient by Bringing Everything Together Multichannel retailers are still struggling to provide a seamless shopping experience across all of their channels, owing to the fact that each channel requires its own set of skills and resources to be managed effectively.

#### **Supporting M-Commerce**

Internet-enabled devices, ranging from desktop computers to mobile phones, are available for customers to use to access a retailer's Internet channel. M-commerce, which refers to the purchase of products and services through mobile devices, is becoming increasingly popular among retailers as domestic and international broadband access through mobile devices continues to grow at an alarming rate. The typical retailer's Web site, on the other hand, is not currently designed to accommodate the small screen and slower download speeds associated with mobile devices. A number of companies, including ESPN, have created special Web sites that can be accessed through mobile devices. In addition, retailers have

created apps, which are small computer programs that allow mobile device users to participate in an activity such as shopping while using their device.

## **Organizing for Multichannel Retailing**

### **Centralized Customer Database**

While there are differences of opinion about whether many key multichannel activities should be integrated or managed separately, there is broad agreement on the need to establish a centralized customer data warehouse that contains a complete history of each customer's interaction with the retailer. The ability to collect detailed customer data through the Internet channel, as well as the ability to provide a seamless experience for customers when they interact with the retailer through multiple channels, are both made possible through the use of a centralized customer data warehouse.

### **Brand Image**

Retailers must maintain a consistent brand image of themselves as well as their private-label merchandise across all channels of distribution. Patagonia, for example, promotes its image as a seller of high-quality, environmentally friendly sports equipment in its stores, catalogs, and on its website, among other places. In the descriptions of Patagonia's products on each of these channels, the emphasis is on function rather than fashion. Patagonia's environmental concerns are communicated through the careful lighting of its stores and the use of recycled polyester in many of its garments, as well as the use of only organic cotton rather than pesticide-intensive cotton in its clothing.

### **Merchandise Assortment**

Typically, different assortments are appropriate for each of the channels. For example, multichannel retailers offer a broader and deeper merchandise assortment through their Internet channel than through their store channel. The Internet channel is more efficient for selling merchandise that does not have broad appeal.

### **Pricing**

When it comes to pricing, a multichannel retailer is faced with yet another difficult decision. Customers expect consistency in pricing across all channels (excluding shipping charges and sales tax). Retailers, on the other hand, may need to adjust their pricing strategies in some cases as a result of the competition they face across different channels. As an example, in order to compete effectively against Amazon.com, BarnesandNoble.com offers lower prices through its electronic channel than it does through its physical stores. In order to deal with differences in local competition, retailers with stores in multiple markets frequently set different prices for the same merchandise in each market. Customers who shop in their local markets are not aware of these price differences because they are only exposed to the prices in those markets. Multichannel retailers, on the other hand, may find it difficult to maintain regional price differences in an age when customers can easily compare prices on the Internet.

### **Reduction of Channel Migration**

Having access to the Internet during a shopping session makes it simple for customers to look for information about products and their prices while they are out shopping. The most common use of multiple channels during a shopping episode is browsing on the Internet channel and then purchasing the merchandise in a store. When asked, over percent of consumers in the United States said they followed this pattern, while only 8 percent followed the second most widely used pattern, which was browsing in a store and making the purchase online.

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