

The Henley Centre for Customer Management



Managing the multichannel customer experience

Professor Hugh Wilson and Professor Moira Clark

28th November, 2007



This report is produced by The Henley Centre for Customer Management on behalf of its' members.

The date on the cover page of this report is the official release date. For the first six months after release, the report remains confidential. During this first period there is no restriction on copying within the research project team and member organisations, provided that the statement of copyright and identification of source is retained on all subsequent copies and no copies are released to non-participating organisations.

After the six months period of confidentiality, normal copyright practice will be expected of all users of the research results. All published results will carry a copyright notice and an identification of the source, with a request to retain that information on all subsequent copies.

Table of Contents

1. Executive Summary	1
2. Introduction	2
3. Treat different transactions differently	4
3.1. The coverage map.....	4
4. Create win-wins with innovative channel combinations	6
4.1. Channel chain diagrams	7
4.2. The channel choice chart.....	8
5. Bring indirect channels into the data loop	10
6. Balance the need for innovation and integration in structure	12
7. Measure and reward holistically	13
8. Conclusions.....	15

Table of Figures

Figure 1: IBM's channel coverage map	5
Figure 2: Channel chain diagram - UK Trade And Investment.....	7
Figure 3: Channel choice chart - pensions	9
Figure 4: Channel chain diagram - General Motors Dialogue programme.....	11
Figure 5: Breaking down channel silos: BT Major Business	13
Figure 6: Expense to Revenue Ratio - BT Business.....	15

1. Executive Summary

- This report studies best practice in crafting and profiting from the multichannel customer experience, through in-depth study of major multichannel projects at **First Direct**, **IBM**, **BT Global Services** and **General Motors Europe**. Findings were also informed by interviews with boutique hotel chain Eton Collection; DVLA; UK Trade and Investment; a high street retailer; and a financial services company.
- Rather than thinking of each customer as belonging to a particular channel, there are many benefits to be gained in terms of both cost and customer experience by **treating different transactions differently**. BT Global Services has replaced 400 field sales staff by desk-based account managers who deal with simpler sales, considerably reducing the cost of sale. IBM diverts any sale of less than £50,000 to the teleweb channel. We describe the **coverage map tool** which helps to think this through.
- There is much cost to be saved in diverting customers to lower-cost channels, but only if we carry the customer with us. That tends to mean **creating win-wins through channel combinations** – making appropriate use of low-cost channels, but making personal contact available at points in the customer journey where it is needed. First Direct has boosted profits considerably by diverting 80% of transactions online – without harming satisfaction. **Channel chain diagrams** and the **channel choice chart** can help to get the balance right.
- Indirect channels – agents, distributors, retailers – can also be brought into the multichannel customer journey. But this means **bringing indirect channels into the data loop** - sharing customer data with them to provide an integrated experience. BT has rolled out its CRM system to major distributors. General Motors works with dealers to provide an integrated customer dialogue, resulting in 17,000 incremental car sales in a pilot project.
- Most organisations have inherited channel silos in which each channel is a profit or cost centre. But this does not reflect the reality of customer journeys which cross multiple channels. **Structure and rewards need to reflect the multichannel customer journey**. One approach is to attach a financial value to a lead generated in one channel but fulfilled in another – we saw this working successfully in a high-street retailer. Another approach is to organise around customers. BT Global Services has account directors responsible for revenue and sales and marketing costs irrespective of channel.

2. Introduction

Peter Drucker famously observed fifty years ago that “Because it is its purpose to create a customer, any business enterprise has two, and only these two, basic functions: marketing and innovation.”¹ If he was right, our topic is an important one, as it concerns both marketing and innovation. But while the innovation in products and services that Drucker was referring to continues apace, today’s competitive strategy is equally based on innovation in the route to market. Amazon, Salesforce.com, Schwab and Dell are just a few examples of innovative channel strategies as a key component of the value proposition.

The current profusion of channel options would not be possible, of course, without the technological developments which underpin it, from database marketing and computer-telephone integration to the Internet and personalisation software. But change is also being driven by the changing customer. Longer working hours and commuting times leave less time for shopping, making travel arrangements or insuring the car. And when purchasing at work, flatter organisational structures and consolidated buying functions put a similar emphasis on purchasing convenience. So we have a strong motivation for using remote channels to save time.

But we have not seen the resulting wholesale switch to remote channels which many predicted just a few years ago. Instead, we find ourselves in a multichannel world. In business-to-business markets, the sales force is still struggling to work out its relationship with the contact centre and the Internet channel. And although eBay’s Internet-only model flourishes for some product-market segments, many others like Dell have found that a remote model of mail order, the telephone and the Internet still has to be supplemented by a sales force to build relationships with major accounts.

Neither has the physical channel disappeared in consumer markets. We might be prepared to buy a flight ticket or an iPod online, but in many cases the electronic rope-bridge needs to be reinforced with the girders of human contact if resilient relationships are to evolve from initial tentative transactions.

This lesson was painfully learned by many in the first dot-com boom: for example, compare expensive European failure Boo.com with Gap. Boo tried to sell us designer clothes on the Internet alone, before the technology or the market was ready. Gap, on the other hand, commissioned some market research – touchingly traditionalist old fuddy-duddies that they are – and found that, although we might buy our *second* pair of khakis online, we want to try our first pair on in a store. And while we might buy a shirt online, it won’t be our first purchase from Gap. So they integrated their online and high street selling operations, refused to launch Gap.com in countries in which they had no high-street presence, and are still around long after Boo went the way of eToys, Chemdex and many more of their “pure-play” contemporaries. The contrasting fates of US online retailing pioneer Webvan and Tesco.com tell the same story.

All this presents executives with a problem: how to define innovative channel combinations that deliver great customer experience and save costs at the same time. The textbooks,

¹ P. Drucker, *The Practice of Management* (HarperCollins, 1954).

conceived in times when the route to market in each industry was an unchanging constant, are of little help. Neither is the thinking of the dot-com era, with its one-size-fits-all prescriptions such as the doctrine of 'frictionless commerce' according to which, due to the price transparency and supposedly low switching costs of the Internet, all trade was predicted to evolve towards price competition, resulting in vanishing differentiation and brand value.² If this were true, we would all search for the cheapest source of everything we buy. But only 11% of us bother to look at more than one website when buying a book, and 16% when buying a toy for a Christmas present. Online as offline, in B2B as in B2C, price-driven behaviour forms only one segment of many.

So instead of following the crowd, we need to create the right route to market for our particular circumstances. To put it another way, it is no longer sufficient just to focus on how to manage our existing channel resources – an excellent sales force, a great network of distributors. We need to create for channel strategy what strategic management literature refers to as dynamic capabilities:

“The firm’s processes that use resources – specifically the processes to integrate, reconfigure, gain and release resources – to match and even create market change.”³

We summarise some lessons for doing this in Table 1. These lessons arise from interview-based fieldwork with four organisations in Europe who have demonstrated excellence in some aspect of multichannel strategy - British Telecom (BT), IBM, General Motors Europe and First Direct – as well as discussions with boutique hotel chain Eton Collection, UK Trade and Investment, DVLA, a high street retailer and a financial services organisation. The table contrasts conventional wisdom on channel strategy with our findings. We will report on each of these findings in turn, and along the way, we will describe some of the tools for formulating a successful multichannel strategy which have proved most powerful in the companies we have studied.

² See Erik Brynjolfsson and Michael Smith, “Frictionless commerce? A Comparison of Internet and Conventional Retailers”, *Management Science*, 46/4 (April 2000).

³ Kathleen Eisenhardt, K.M and Martin, J. A, “Dynamic Capabilities: What are they?”, *Strategic Management Journal*, Vol 21 (2000), p.1105-1121.

Table 1. Innovating on channels as a key competitive weapon

Conventional wisdom	Our findings
1. Allocate customers to channels 2. Shift customers to low-cost channels	Treat different transactions differently Create win-wins with innovative channel combinations
3. Maintain your power by keeping indirect channels in the dark 4. Keep channels in well-defined silos	Bring indirect channels into the data loop Balance the need for innovation and integration in structure
5. Ensure channel directors stand or fall on profits	Measure and reward holistically

3. Treat different transactions differently

A common question in many organisations is: “Which channel looks after this customer?” The question betrays the assumption that each customer deals with only one channel – an assumption which needs to be jettisoned if we are to make the best use of lower-cost channels without damaging the overall customer relationship. There are indeed very significant savings to be made in switching customer contact to low-cost channels, but we need to do this selectively. An IT company’s key accounts or a pension provider’s high net worth individuals may rightly demand occasional face-to-face meetings with account managers or financial advisers. But equally they are generally more than happy to use low-cost channels such as contact centres and the Internet for lower-value transactions and routine queries.

IBM had to challenge this assumption of one channel per customer in 2002 when it decided to rethink its routes to market. During the entrepreneurial, high-growth 1990s a profusion of different channel approaches had sprung up in its semi-autonomous business units. But in the technology slowdown post 2001, it could see the efficiency benefits that could be gained from having a handful of standard routes to market, and from shifting some business towards the lower-cost options such as IBM.com and away from face-to-face sales. At this point, as an executive put it:

“We made a key insight: that the same company, even the same individual buyer, could behave in different ways when buying different products. So we had to stop allocating each customer to a channel.”

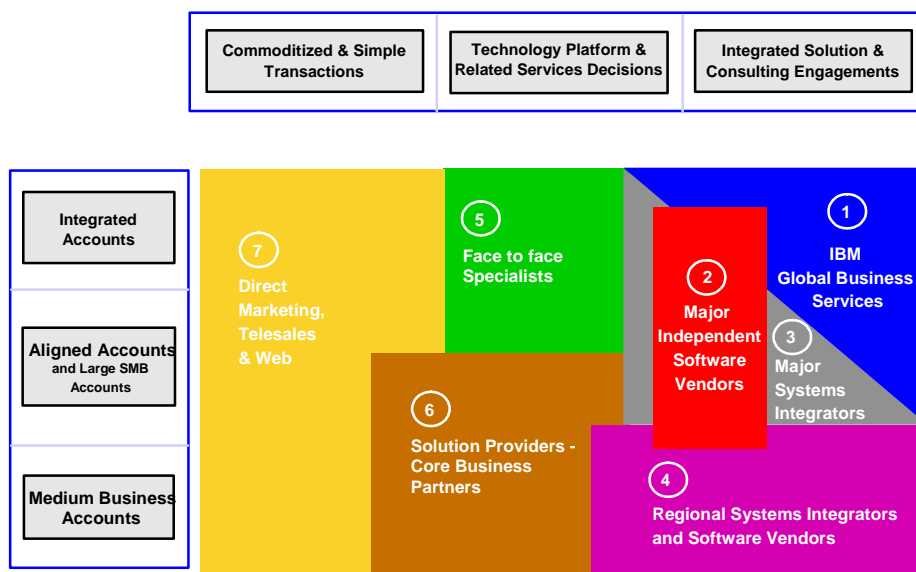
3.1. The coverage map

So a key diagram, the ‘coverage map’⁴, was drawn up, as shown in Figure 1. The vertical axis plots customer groups, ranging from low-value to high-value ones. The horizontal axis lists the company’s products or services in order of the complexity of the sales process. So a simple product with few options which takes little explanation to the customer will appear to

⁴ The term ‘coverage map’ is from Friedman and Furey, *The Channel Advantage* (Oxford: Butterworth Heinemann, 1999).

the left, while a complex product requiring configuration and consultancy and involving price negotiation will be to the right. On a coverage map like this, low-cost channels are generally most applicable in the low-value, low complexity area at the bottom left of the map, with the highest-cost channels being deployed at the top right where they are both most necessary and most affordable. By contrast, when IBM drew a map of their current routes to market, it was full of inconsistencies, with high-cost channels being used towards the left and bottom of the map, gaps in coverage where no channel was providing an effective solution, and areas where two channels were competing for the same business.

Figure 1: IBM's channel coverage map



For IBM, redrawing this map was a key part of thinking through how to simplify the number of routes to market down to a manageable seven main routes worldwide, each of which was represented by a different colour on the chart, as shown in Figure 1. These routes are the Global Business Services team for major consultancy-led projects (route 1 on the chart); the direct sales force for large system implementations (route 5); and a range of distributor types (2, 3, 4 and 6), as well as a direct telephone/web operation (route 7).

This “Route to Market Simplification Strategy” project has resulted in slight reductions in field sales staffing and in the proportion of sales made face-to-face. A larger impact, though, has been on lead generation, with 22% fewer leads being generated by field sales over a one-year period as other channels have taken up the slack. It seems that customers in the early part of the buying process, educated by the likes of Dell, are happy to do much of the work on their own, with support from the web and call centres. This switch in behaviour has allowed greater time investment by account managers in the crucial areas of post-sales delivery and support, and has enabled them to focus their sales efforts on the larger opportunities. A further benefit of the project has been an estimated reduction of 50% in the total cost of managing channels, as procedures are standardised, reporting is improved and people better understand their role. So not only has client satisfaction increased, but so has people satisfaction, both internally and among business partners.

4. Create win-wins with innovative channel combinations

Note that IBM calls these seven areas of the map 'Routes To Market' rather than channels. The reason is that each may in fact involve multiple internal and external organisational units dealing with the customer, so the names on the chart really reflect the leading channel rather than the only one involved. IBM has separate charts spelling out how different units hand over to each other as the customer moves through the pre-sales and post-sales processes.

This is another sense, then, in which customers cannot be allocated to channels: the customer may make use of multiple direct and indirect channels not just for different products, but also in the same purchase process. So rather than thinking of channel innovation as simply about introducing new, low-cost routes to market, it can equally be about introducing a new combination of channels which complement each other at different stages of the relationship.

A good example is British Telecom's \$6bn turnover Global Services division, which sells telecoms and IT equipment to the UK's largest corporates. Until recently, it was using its 2000-strong field sales force for everything. This tied this expensive resource down to taking every low-value order, making it difficult to concentrate on the complex outsourcing deals where they were most needed.

BT therefore piloted a new approach involving a new category of customer representative, the desk-based account manager (DBAM). These fully-professional account managers working purely from the office were asked to take the strain off the field sales force by dealing with simpler sales and queries, working closely with field-based account management teams so the customer relationship is seamless. A pilot involving 12 DBAMs significantly reduced the cost of sale due to the lower cost of employing DBAMs and the high proportion of their day they spend dealing with customers – the cost of marketing and sales going down from 25% of revenue to 17%. The pilot also actually increased customer satisfaction, as customers preferred the highly-available DBAMs for their simpler needs. As a result, BT has now rolled out over 400 DBAMs, with every account team having DBAM support, and reduced the size of the field sales force accordingly. BT calculates that as well as reducing costs, this is generating over £100m of additional revenue per year as the field sales force is able to concentrate on high-value opportunities.

The web is also playing a significant role in BT's multichannel customer relationships. Dedicated pages for major customers and web conferences help the customer to research BT's offerings, while business rules built into the web solution ensure that customer enquiries and orders are routed to the appropriate person for fulfilling. After-sales services allow customers to access basic service and billing information quickly and report faults. This takes pressure off the field and desk-based sales resources: for example, the well-supported web based customer conferences save field sales over 500 person-days a year.

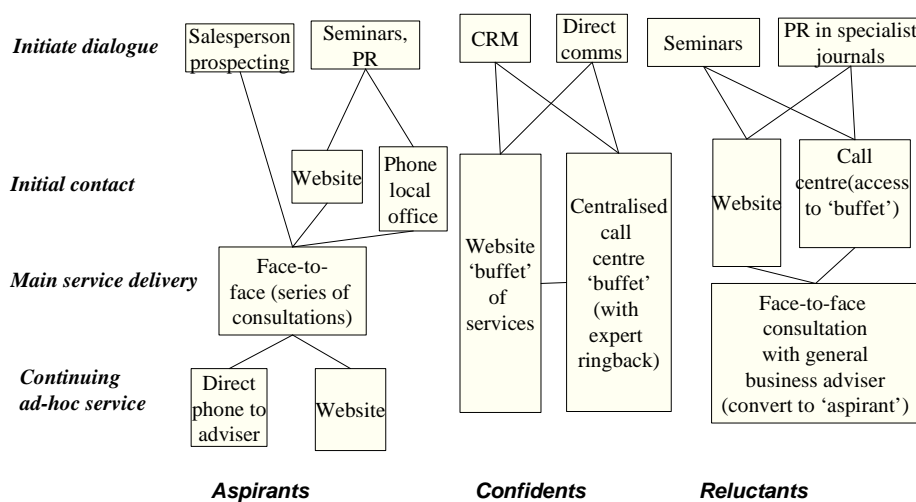
First Direct provides another example of a creative channel combination which delivers value to both the customer and the company. Launched in 1989 as a pioneer in telephone banking, First Direct has an outstanding reputation for customer service, consistently achieving the highest customer satisfaction ratings in the UK with its friendly, well-trained call centre staff. Yet these standards come at a cost, and until recently the profits it was able to return to its owner, HSBC, were only moderate. First Direct maintained its reputation for innovation with the launch of Internet banking and text message banking in 1999. But in

doing so it stuck with its customer service ethos, sending mailings positively encouraging its customers to phone occasionally for advice or just a chat as well as using the website for routine transactions. The result is the best of both worlds. While 80% of customer transactions are now online, satisfaction and hence recommendation rates have remained excellent. So profits have jumped substantially over the past five years – in contrast to its pure-play competitors who have emphasised price in their value proposition and discouraged personal contact.

4.1. Channel chain diagrams

How can managers think through how multiple channels should best combine together in the customer relationship? Drawing another diagram, which we term a channel chain diagram, can help.

Figure 2: Channel chain diagram - UK Trade And Investment



In this diagram, illustrated in Figure 2, the stages of the buying cycle are drawn down the left hand side (the details of this buying cycle may vary in each case). Against each stage are then listed the channels used to accomplish it. The channel used for one stage will often affect which channel is likely to be used at the next stage, so the relevant boxes are joined with a line.

Channel chains can be used to represent the channel combinations currently on offer by different competitors, but also they can be used proactively to create channel strategies that better meet the needs of target segments. This is the approach of UK Trade And Investment, a UK government-funded body whose mission is to improve the export performance of UK small and medium-sized enterprises (SMEs) via a network of export advisers working out of local offices.

Step one in their strategy study was to understand and segment the market. Simplifying somewhat, this resulted in three major groupings of SMEs. 'Aspirants' export little or not at all as yet, but aspire to doing so in the future. 'Reluctants' are also inexperienced exporters, but by contrast with the aspirants, are fearful of the complexities and risks they associate with exporting, creating deep-seated attitudinal barriers to progressing beyond the fulfilment of the few leads which happen to 'walk in the door'. 'Confidants' export as a matter of course, and are only likely to turn to UK Trade And Investment for help on specifics such as identifying a distributor in a new country.

A senior management team then brainstormed an appropriate channel combination for each of these broad segments, as shown in the figure. The 'aspirants' were reasonably well served by the organisation's traditional channel strategy of face-to-face consultations with advisers who guide the entrepreneur through an export planning process. The last thing the 'confidants' want, though, is to phone a local office and have an appointment made two weeks' hence when a consultant happens to be free. Instead, they need a 'buffet' approach, dominated by the remote channels of a contact centre and the Internet, which provides quick access to the answer they need to their immediate query.

The face-to-face model is equally inappropriate for the 'reluctants', who only approach the organisation for help with fulfilling a specific order that has happened to come their way, such as "how to get money out of Saudi Arabia" or "how to do the customs paperwork for China". The same remote 'buffet' designed for the experienced exporters meets this specific need, but needs to be supplemented by a cost-effective communications campaign to address the segment's attitudinal barriers, using such techniques as seminars and white papers. The aim here is to convert some members of this segment to become 'aspirants'.

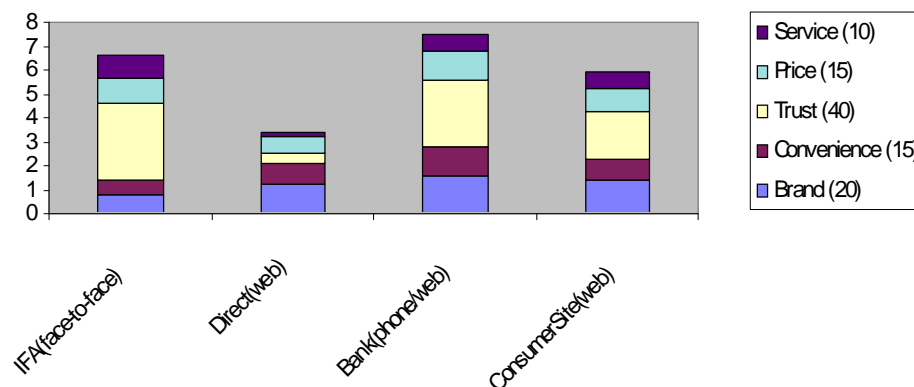
Channel chains, then, can be used to flesh out how each 'route to market' on the coverage map works in detail, and how the leading channel named on the coverage map needs to be supplemented by other channels to make the best use of low-cost channels, while also allowing the use of high-cost ones for aspects of the relationship where this is necessary. Used in this way, channel chain analysis can result in a channel proposition better tailored to customers' differing needs, as well as one which uses expensive physical and human assets in a more targeted manner. It is rarely possible or indeed desirable to force customers to stay within the channel chain you have designed for them, but by going through this design process customers will find themselves gently steered through a channel chain which suits them as well as the supplier.

4.2. The channel choice chart

When executives have drawn up a proposed new coverage map and channel chains, the question then arises: how do we know that the new model really will be better than our existing one? There may be particular resistance to the new approach from those with vested interests in the status quo – we have recently seen a field sales director lose his job as he failed to engage constructively in a board debate about reshaping the route to market – but the question is nevertheless a fair one, and the proposed strategy is unlikely to be 100% right first time. While the impact on costs can be estimated, the impact on revenue is harder to predict, depending as it does on customer acceptance of the new model. The only sure answer is to construct a pilot, such as BT's pilot introduction of DBAMs which we described earlier, and to measure the impact of the new model on such variables as

revenue, costs, customer satisfaction and employee satisfaction. Even before that stage, though, an initial assessment of whether a new approach is likely to be accepted by customers can be made using what we term a channel choice chart. An example of this chart for a financial services company selling pension products is shown in Figure 3.

Figure 3: Channel choice chart - pensions



Factor	Weight	Scores:			
		IFA(face-to-face)	Direct(web)	Bank(phone/web)	ConsumerSite(web)
Brand	20	4	6	8	7
Convenience	15	4	6	8	6
Trust	40	8	1	7	5
Price	15	7	5	8	6
Service	10	10	1	7	7

First, the customers' buying criteria are listed, and weighted out of 100 for their relative importance in the buying decision. In this example, these criteria are the company's brand; the convenience of the purchase process; the consumer's trust in the company or agent; price, as exemplified by salesperson's commission, charges and so on; and service levels. These criteria can be obtained from market research if available, or otherwise estimated by managers close to the customer.

Many managers conduct a similar analysis as part of their marketing planning process, going on to compare their company's performance against that of the competition on each criterion. But for channel strategy purposes, we suggest that instead, different channels are scored against each other – or indeed more generally, different channel combinations, or channel chains as we have called them, are compared. In this example, the face-to-face independent financial advisers who form the current route to market were compared against three possible alternative approaches: the IT director's suggestion of a direct sale via the company website; distributing through a telephone-and-web bank such as First Direct; and selling via a trusted consumer finance website.

Each channel is scored out of 10 on each criterion to represent how customers would rate the channel, in the judgement of company managers. The stacked bar chart then shows the weighted average score, with the overall height of the bar roughly representing the attractiveness of the channel proposition to the customer. This analysis proved influential within this financial services company. Although the board understood that the chart's inputs were based on judgement and were hard to verify with certainty, its debate concluded that customers were not yet ready for the IT director's favoured model of direct online sales, as it was believed that most customers would not have the confidence to purchase this highly important product without the recommendation of someone they trusted. The analysis threw up, though, the potential to sell via another remote channel - a trusted direct bank such as First Direct. The board concluded that a pilot of this approach should be carried out, and that direct web sales should meanwhile be subject to a watching brief.

5. Bring indirect channels into the data loop

It is widely recognised that if several channels are to work together in the same customer relationship, they must share their customer knowledge via a common IT infrastructure if the relationship is to be seamless. This is typically the role of the customer relationship management (CRM) system, providing a single customer view to customer-facing staff irrespective of the department they work in.

But the channels we are mixing to provide a distinctive proposition are not restricted to our own direct channels – the sales force, call centres, the web and so on. Equally, we may wish to include agents, distributors or retailers in a multichannel combination, complementing this arms-length customer relationship with direct customer contact. For this to work, the indirect channel needs to be brought into the same data loop, with access to the same information on the customer's transactions, products and issues that is available to our own direct channels.

BT had to build such a system as a crucial underpinning of its transformation from the single channel of field sales to multichannel customer management. Once its CRM system had been rolled out to all its own sales and service staff, the channel director soon made the system available to the indirect channel partners so they could draw on the same unified data on leads, previous customer interactions and so on. Equally, BT could thereby analyse and improve the effectiveness of the distributor channel using the same metrics as the internal channels:

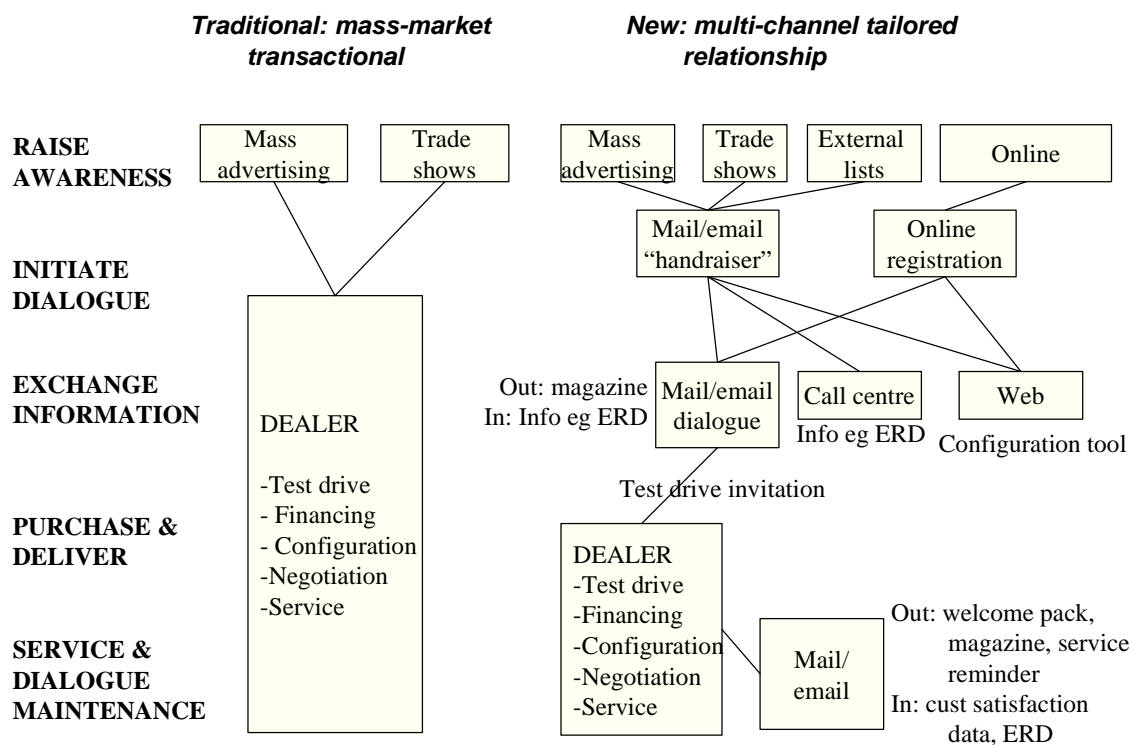
“You cannot make something like this work without powerful customer management technology. We opted for Siebel and it integrates all our channels including the web and our third parties. At first we did not offer access to our CRM system to our partners but we found it so difficult to work without it, it became obvious that we must do it” *Channel director, BT*

General Motors Europe is another example of sharing data across direct and indirect channels to support a multichannel proposition. The early experimentation in the car industry with online sales continues, albeit as yet with relatively modest results. This channel substitution of the dealer with the online channel is not the only possible innovation in the

industry, however. The e-GM unit recently led a successful experiment in multichannel CRM termed Dialogue. Focused on the launch of a new model across seven European countries, the Dialogue program hypothesised that a one-to-one relationship with potential customers could be built over the substantial period between car purchases, and that this would allow highly qualified leads to be handed to the dealership when the customer was ready to change their car. The e-GM unit, soon renamed Customer Network to reflect the emerging multichannel proposition, coordinated a trial of this approach across seven European countries, with variations in each country to suit local circumstances. By encouraging customers to ‘raise their hand’ through direct mail response, website registration and so on, a dialogue could be begun – and continued either via email or post, at the customer’s choosing – in which GM provided product information and the customer in return provided information on their expected car replacement date and their models of interest.

Again we can represent this multichannel relationship in a channel chain diagram - see Figure 4. The traditional channel chain, on the left, shows how car manufacturers have in the past restricted their role primarily to mass advertising, leaving all one-to-one communication to the dealer. By contrast, GM’s channel chain on the right involves the dealer at the point at which they are needed, the sale itself.

Figure 4: Channel chain diagram - General Motors Dialogue programme



Note: ERD = estimated replacement date

In the pilot programme was credited with having produced an uplift of 17,800 cars and generating 57m Euros of additional profit. As a result, the programme has been widened to a number of subsequent model launches.

In order to make this project work, GM had to provide sales lead information to dealers and get information in exchange about what happened to each lead. The technical solution varied from country to country, ranging from low-tech faxes and phone calls to a special extranet. Whatever the technology, though, developing dealer cooperation and ensuring a good information flow was found to crucial to the project achieving its objectives.

6. Balance the need for innovation and integration in structure

The coherence of the multichannel customer experience often depends on the organisational structure. The advantages of a separate unit for new channels in freeing up the embedded cultural artefacts which provide a brake on innovation have been much discussed in the e-commerce context. But BT Global Services amongst others reported that this can lead to 'channel silos' in which staff act in the best interests of their channel rather than the overall customer relationship:

"How would we get field-based sales to embrace a second, lower cost, channel to market? How could we change embedded habits and routines? If we freed up senior sales peoples' time for strategic work – would they rise to the challenge? Would we end up with a series of mini BT businesses or could we really integrate all the channels into a single, managed customer experience?"

BT's answer, as shown in Figure 5, is a matrix structure in which staff in the new direct channels – desk-based account managers and BT.com – report 'sideways' to the channel director but also 'vertically' to the account team for whom they are working. The sideways reporting helps to consolidate learning in best practice within each channel, while the vertical reporting which dominates financially keeps the account director responsible for all the channel resources deployed on the account.

"The account director buys in resources from other channels so has a strong dotted line influence, though DBAMs have their own solid-line manager to build channel skills. In retrospect this may seem obvious. At the time it was nothing short of revolutionary." *Channel director*

Figure 5: Breaking down channel silos: BT Major Business

		Account Management			
		Government	Financial Services	Commercial & Brands	Corporate Mid-Market
MB Channel Marketing		Field Sales Govt	Field Sales Fin Ser	Field Sales Comm.	Field Sales Mid.
	Desk Based Resource		DBAM	DBAM	DBAM
Bt.com					
Partners					

7. Measure and reward holistically

One of the major challenges in implementing a multichannel strategy is that of measurement. If the customer hops between channels in the same relationship and even in the same purchase, how can we measure channel effectiveness? Clearly, sales alone would be an inadequate measure of the effectiveness of BT’s desk-based account managers, if on occasion their role is to qualify a lead for the field sales force. In general, we need to measure conversion rates and cost effectiveness for each link in the channel chain, not just the final purchase step. When it is practicable, this can best be done by tracking individual customers as they move through the chain, using techniques such as dedicated phone numbers for customers originating with a particular online advertisement, or electronic coupons delivered by SMS message which can be redeemed in the store, or a host of similar tactics.

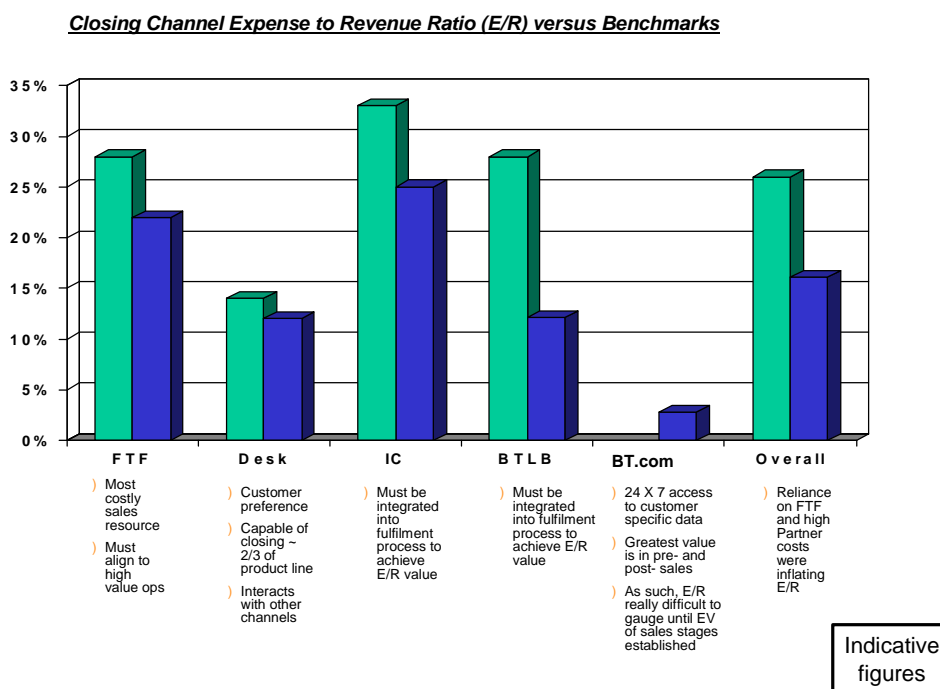
Another useful technique when piloting a new multichannel route to market is to use simple experiments using control cells, in which some customers (or other units such as regions or stores) are selected at random to participate in the new model, while others continue with the old channel configuration. In the Dialogue programme we discussed earlier, General Motors set aside a random control group who were not offered the CRM programme. As a result, it could state the number of incremental car sales that the programme had generated with conviction. It could also break down the relative success of different variations, such as the successful use of outbound calling in one country shortly prior to handover of leads to dealers.

Similar cross-channel thinking is needed in the definition of individual targets and rewards. A corollary of IBM's coverage map, which dictates that the customer may use different channels for different products, is that it does not make sense to remunerate field sales for every product sale. Simpler products were therefore taken out of their remuneration package as a key driver of changed behaviour.

BT has a slightly different approach. In recognition of the need for simpler products to have a low cost of sale, its CRM system automatically routes these leads to a lower cost channel such as a desk-based account manager. The account manager can manually override this recommendation if particular circumstances demand it, though 75% of channel recommendations are accepted. The alignment with rewards comes, though, with the account manager's targets, which include a stretching target for expense-to-revenue ratio – sales and marketing costs as a proportion of revenue - which can only be met by diverting at least some business to lower-cost channels. The same effect, then, is achieved as with IBM, but by a subtly different method.

Figure 6 illustrates this for BT Business, the part of BT which sells to small and medium-sized companies. BT calculates the expense to revenue ratio for each channel – field sales, desk-based sales, two categories of intermediary and BT.com - comparing these with benchmarks representing a best practice organisation. But it focuses primarily on the overall expense to revenue ratio across all channels, at the right of the chart. By targeting sales managers on this overall ratio for the set of accounts for which they are responsible (as well as on account revenue of course), the managers are motivated to make sensible use of lower-cost channels and to get the channels working together effectively. Because profits ultimately come from customers and their life-time value, this represents one of the most successful models we have seen for motivating behaviour in sales channels which aligns with the organisation's interests.

Figure 6: Expense to Revenue Ratio - BT Business



8. Conclusions

We have reviewed some of the characteristics of good multichannel strategies, with several of our examples showing how it is possible to improve customer satisfaction and reduce costs simultaneously. But we have also seen that if today's customer is demanding better, more integrated multichannel customer journeys, channel strategy is not just a question of a one-off review: rather, we need to think of the route to market as an innovation process requiring constant experimentation and refinement, just as we do with products.

And as the issue of metrics shows, the devil is in the detail. Developing a successful channel strategy is far from easy, and techniques such as channel chain diagrams and the coverage map are offered as tools to consider as needed rather than universal prescriptions.

But two things are clear. Firstly, you can't hold back the tide of change. If a new channel proposition – whether revolutionary or evolutionary - is in the customers' interests, then it will happen sooner or later. And when it does, we need to be ready: there is mixed evidence on whether first-mover advantage beats being a very early follower, but it certainly doesn't pay to be much later.

Secondly, when defining and implementing our channel strategy, we need to keep an unremitting focus on satisfying customers, or we risk creating economic terrorists who will advertise our failings to all who will listen. Such techniques as the channel choice chart do not guarantee that we will achieve this, but at least they will help us to ask the right questions.

The Henley Centre for Customer Management

The Primary Objective of the Henley Centre for Customer Management is to promote Customer Focus and Service Excellence best practice through observing practice in leading companies and synthesising this into useful knowledge that helps members to improve their own Customer Management and Customer Service plans and implementations.

Members

Each year, the Centre aims to attract a membership of between 10 and 20 organisations, each a leader in their sector.

Members in 2007 were:-

Vertex (Main Sponsor)
Bausch & Lomb
Bentley Motors
BP
Bromford Housing Group
Capgemini
Cognizant Technology Solutions
Daimler Chrysler Financial Services
Ecclesiastical Insurance
Electrolux
Kelly Services
Legal & General
NSPCC
Virgin Mobile.

Centre Contacts:		
Director	Assistant Director	Customer Relationship Executive
Professor Moira Clark	Tony Harrington	Anne Tabbner
Tel: 01491 571494	Tel: 07815 938534	Tel: 01491 418710
Moira.Clark@henley.reading.ac.uk	Tony.Harrington@henley.reading.ac.uk	Anne.Tabbner@henley.reading.ac.uk
Henley Business School, Greenlands, Henley-on-Thames, Oxfordshire RG9 3AU		



The Henley Centre for Customer Management is supported by members representing a diverse range of organisations.

Vertex, an international business process outsourcer specialising in customer management, was our main sponsor for the 2007 programme.

