# The Multi-Channel Challenge: A Dynamic Capability Approach

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## About the authors

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# The multi-channel challenge: a dynamic capability approach

**Abstract**

*The maturing of e-commerce, the diffusion of call centres into the B2B space and purchaser demands on price and service are leading to rapid change in the route to market in many B2B sectors, with shifting combinations of channels being offered to the customer in the search for advantage. In this situation managers can no longer rely on the channel resources that they have assembled to provide their extant competitive position. Instead they must be able to combine resources in new ways, gain additional resources and dispose of superfluous resources, and to do this repeatedly and rapidly if they are to compete successfully. The term 'dynamic capabilities' has emerged in the strategic management literature for these activities. Using four case studies and the analytic induction approach to data analysis, we identify seven dynamic capabilities for channel transformation.*

**Keywords**
Marketing channels; business-to-business; dynamic capabilities; resource based view; case studies; analytic induction

**Introduction**

Peter Drucker famously observed fifty years ago (Drucker 1954) that "Because it is its purpose to create a customer, any business enterprise has two, and only these two, basic functions: marketing and innovation." If he was right, our topic is an important one, as it concerns both marketing and innovation. But while the product innovation that Drucker was referring to continues apace, today's competitive strategy is equally based on innovation in the route to market (Rayport 2005). The use of e-marketplaces (Dai and Kaufmann, 2002) and the evolution of the remote model to encompass product delivery and service as well as sales in sectors such as IT (Hoffman and Novak, 2000) are just two examples of innovative channel strategies as a key component of the value proposition.

But we have not seen the wholesale switch to remote channels which many predicted just a few years ago. Instead, we find ourselves in a multi-channel world. The business-to-business sales force is still struggling to work out its relationship with the call centre and the Internet channel. And although the pure-play 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.

The route to market has therefore become a key competitive battleground in many industries, with different players trying out different channels or channel combinations in an attempt to reduce

costs, improve customer satisfaction or both. A number of researchers have suggested that in such dynamic environments competitive advantage is transient, rather than sustainable (D'Aveni 1994). Managers must therefore concentrate on renewing rather than protecting their sources of competitive advantage (Rindova and Kotha 2001). No longer can they rely on their extant channel resources – a distribution network, an excellent sales force - that they have assembled to provide their present competitive position. The dynamic nature of channel competition requires them to be able to combine these resources in new ways and to gain additional resources, and to do this repeatedly, if they are to compete successfully. Strategic management scholars have come to refer to the processes by which firms reconfigure their resources in order to gain competitive advantage as dynamic capabilities (Treece et al 1997).

In this paper we seek to help managers undertaking channel transformation by exploring the role of dynamic capabilities in this domain. In particular this study, which is preliminary in nature, seeks to identify generic dynamic capabilities that might be considered as best practice in channel transformation initiatives in B2B markets. We also consider the lessons that the dynamic capability paradigm can provide to managers undertaking this important activity, and to academics engaged in studying this domain.

The concept of dynamic capabilities has proved useful within some other marketing areas. Previous studies have considered their use in international expansion (Luo 2000; Griffith and Harvey 2001; Grant 1996) and new product development (Deeds et al 2000; King and Tucci 2002; Spanos and Prastacos 2004; Marsh and Stock, 2003). Whilst other studies (Rindova and Kotha 2001; Daniel and Wilson 2003; Hackbarth and Kettinger 2004; Wheeler 2002) have considered Internet channels specifically, we are unaware of the application of the concepts of dynamic capabilities to the issues of how channels fit together and how channel strategy overall is to be developed. This study therefore represents an extension of this increasingly widely accepted area of strategic thinking to this important topic.

We use the term channel transformation to describe an organisation's deployment of marketing and sales channels to significantly modify its strategy. In accordance with our focus on the resource-based view, we define strategy in turn as 'a sustained pattern of resource allocation' (Mintberg 1978). Following more recent practice (Payne and Frow 2004), we include within the term 'channels' both indirect channels such as agents and distributors, and direct channels such as the Internet, call centre and field sales force.

The paper commences with a summary of the concept of dynamic capabilities. The objectives and method adopted for the study are then described and the findings of the study are then presented

and discussed. We conclude with a more general discussion of our findings including suggestions for further research. We do not here present a full review of the growing, though mainly prescriptive, literature addressing channel strategy in today's multi-channel environment. Instead the reader is referred to papers by Payne and Frow (2004), Nunes and Cespedes (2003), Myers et al (2004) and Stone et al (2002), and to the other papers within this special section of Industrial Marketing Management.

**Dynamic Capabilities**

The resource based view (RBV) (Wernerfelt 1984) considers organisations as collections of specific physical, human and organisational assets or resources. If these assets are valuable, rare, inimitable and non-substitutable - the so-called VRIN attributes - they can be used to implement value-creating strategies that will provide sustainable competitive advantage (Barney 1991). Some scholars have questioned whether RBV adequately explains why certain firms have competitive advantage in situations of rapid and unpredictable market change, termed high-velocity or dynamic markets (Zollo and Winter 1999; Rindova and Kotha 2001). In such markets, they argue, the mere existence of appropriate bundles of specific resources is not sufficient to sustain competitive advantage. Instead a firm must constantly reconfigure, gain and dispose of resources to meet the demands of a shifting market. This has led to the concept of dynamic capabilities, which are characterised as an organisation's processes that 'integrate, reconfigure, gain and release resources to match and even create market change' (Eisenhardt and Martin 2000: p.1107).

Considerable interest has been shown in this concept, with studies focussing for example on their role in organisational learning (Tsoukas and Mylonopoulos 2003); new firm formation (Newbert, 2005); knowledge management (Sher and Lee, 2004; Macpherson et al 2004); corporate strategy (Bowman and Ambrosini 2003) and mergers and acquisitions (Roy and Roy, 2004).

Lawson and Samson (2001) apply a dynamic capabilities approach to the investigation of innovation. Whilst many authors highlight the differences between an organisation's well-established or 'mainstream' activities and their innovative or 'newstream' activities (Kanter 1989), Lawson and Samson (p.382) stress that 'managing the different needs of the mainstream and newstream independently is unlikely to be successful in a dynamic and turbulent operating environment'. They suggest that in such markets organisations must develop an innovation capability that allows these two streams to be closely coupled. They propose a model that operationalises this capability as seven elements: vision and strategy; harnessing the competence base; organisational intelligence; creativity and idea management; organisational structure and systems; culture and climate; and the management of technology.

Teece *et al* (1997) suggest that dynamic capabilities are unique to individual firms, reflecting their individual idiosyncrasies and their specific path-dependencies. Whilst acknowledging that the details of dynamic capabilities are idiosyncratic, Eisenhardt and Martin (2000) consider that specific dynamic capabilities show considerable similarities across firms.

Although required in all markets, dynamic capabilities change in nature in high-velocity markets from their embodiment in more stable markets (Eisenhardt and Martin, 2000). In stable markets they are detailed, analytic and stable processes and resemble the traditional conception of routines. In contrast, in high velocity markets dynamic capabilities become simple, experiential and fragile processes with unpredictable outcomes. The simplicity of these capabilities means that there is little structure or routine for managers to rely on. Prigogine and Stengers (1984) describe such processes as dissipative, in that they require constant energy to stay on track, and they are constantly in the unstable state of slipping into either too much or too little structure. As the rate of change in the market increases, these processes become particularly difficult to sustain, leading to the warning that in high-velocity markets, 'the threat to competitive advantage comes not only from outside the firm, but insidiously from inside the firm though the collapse of dynamic capabilities' (Eisenhardt and Martin, 2000 p.1113).

**Method**

An objective of this study is to identify generic or best practice dynamic capabilities which are necessary for multi-channel transformation. The resource based view (RBV) is usually linked to a case study approach due to its ability to incorporate a rich picture of the firms studied, including their unique context and idiosyncrasies (Hoskisson 1999). Since we are looking to identify capabilities which are common across various B2B sectors, a multiple firm, cross-industry case study approach was adopted.

The analytic induction approach to data collection and analysis was used. Originally proposed by Znaniecki (1934), analytic induction has refined into perhaps the best-developed logic for theory development and testing across multiple case studies (Gill and Johnson 1991). Recent applications in the marketing domain include Daniel et al (2003) and Wilson et al (2002). In brief, the method involves generating hypotheses or propositions (here, our identification of dynamic capabilities relevant to multi-channel transformation) from the first case study; using the hypotheses generated to inform the collection of data in the second case; comparing the hypothesis against the data collected in the second case; if necessary reformulating or supplementing the hypotheses so as to take account of the data from this case; and so on through the other cases.

Translated into the context of this study, the method can be summarised as follows:

1. Four cases were selected (listed in Table 1), to provide a spread across a range of B2B sectors including product and service firms, and across size of firm, private versus public sector and across a range of different channel transformation initiatives. Three of the cases were international organisations, one based in the US and two in the UK. The fourth company serves purely a UK market: we have renamed this company as Hospitality Services for reasons of confidentiality.

**Insert Table 1 about here**

2. Semi-structured interviews were held with staff involved in channel strategy. Nineteen managers from the four organisations were interviewed, of whom seven were at director level. Interviews lasted between one and two hours and were tape-recorded and transcribed.

3. Managers were asked to describe their organisation's current channel strategy, how it had evolved, and what the organisation had learned about what capabilities were necessary to transform channel strategy.

4. Having completed the first case study, the transcripts were analysed and data supporting particular examples of dynamic capabilities and of effective practice were identified.

5. A second case study was undertaken and the transcripts were analysed. Data supporting the dynamic capabilities identified in the first case were noted. Where necessary these capabilities were amended to take account of the data from the second case, or additional capabilities were added.

6. Step 5 was repeated for each subsequent case. If a change was made to the capabilities identified, or a new capability was added, it was ensured that the change was consistent with all previous data, as well as the case under consideration.

Both the underlying markets in which the four organisations operate and the channel competition which they exhibit display different degrees of dynamism as shown in Table 1. The increase in channel competition had tended to contribute to the increased the level of dynamism or velocity in three of the markets studied, providing the catalyst for significant industry change which had not yet stabilised.

**Findings and discussion**

Table 2 shows the seven specific dynamic capabilities that were identified in the case studies and how frequently these were observed across the cases. Four of these, which are listed first in Table 2, appear to be associated with innovation and are consistent with the model of innovation capability proposed by Lawson and Samson (2001). A further three relate to integration between

channels (Payne and Frow 2004), though again they relate to elements of Lawson and Samson's (2001) model, as illustrated in the last column of Table 2. Each capability will be discussed in turn.

**Insert Table 2 about here**

<u>Active review of the route to market in an iterative strategy/implementation cycle.</u>

Exploiting the competitive possibilities of channel strategy requires firstly that the organisation must have some mechanism for reviewing and reforming the traditional route to market, rather than just taking it for granted. Many marketing planning methods, for example, start with a map of the industry structure and a positioning of the organisation within that structure, and focus purely on refining the product/service offering (McDonald 1999). Potential transformations to the industry structure such as disintermediation or reintermediation, if considered at all, are regarded as 'out-of-the-box thinking' that is high risk and essentially an intuitive bet. By contrast, in three of the cases, these transformations were evaluated as a systematised part of the planning process.

Hospitality Services, for example, had traditionally sold almost exclusively via a 40-strong field sales force, with a mixture of field sales and internal call centre approaches for contract renewals. Its growth had slowed to single digits over the past two years, despite plenty of market potential, and the sales and marketing director believed that the problem was that the sales force simply couldn't cover the whole territory. Neither could he increase its size due to pressure on annual profitability. The idea of transforming the route to market came from two sources. Firstly, he had been exposed via a business school to ideas and case studies on multi-channel marketing, and he begun to conceive of alternative channel models from observation of successes in other sectors. Additionally, a colleague responsible for debt collection had experimented successfully with an outsourced call centre for smaller accounts, which introduced the idea of using the call centre in the sales context.

The sales and marketing director therefore instituted a planning process to review the route to market. This conceived a new model using a call centre for lower-value accounts, desk-based account managers for medium-value accounts and field sales staff with desk-based support for key accounts. A series of pilots was undertaken to test and refine the model. The first covered a single geographical area, chosen to be broadly typical of the organisation's market. This found that the cost of sale was significantly lower using the call centre approach for most customers, but the picture was uneven.

For customer groups where the new approach was manifestly working, he rolled out the new model across the UK. For others, further experiments occurred in a second geographical pilot to fine-tune the model.

By the time of the interviews, the sales and marketing director had concluded that there would never be a 'final' version of the route-to-market model:

*"I thought that after three months of piloting we would nail down the new approach and that would be that. I'm beginning to live with uncertainty now. As long as we can produce some reasonable estimates for the year for the budget, it's OK that we just keep on refining. Though the broad template we defined in our original planning sessions is holding firm."*

The partial exception to this pattern of iterative strategy and implementation was UK Trade And Investment, where the review of route to market, while planned and systematic, was a one-off activity (which we will describe later): it remains to be seen whether this company will institute regular further reviews. It is notable that this company faces the lowest environmental turbulence of the four cases, as we saw in Table 1.

The alignment of route to market with different segment/product characteristics.

Typically, market segmentation impacts on marketing communications and perhaps the product and pricing, but often it has no impact on the route to market. In each of the cases, though, different customer groups were served through different channel combinations, defined to take into account both the relative value of different segments and their different needs.

IBM, BT and Hospitality Services all represented this variation through a 'coverage map' (Friedman and Furey 1999), which lists customer groups along the vertical axis of a chart, with highest value customers at the top, and product groups along the horizontal axis in increasing order of product sales complexity. Figure 1 shows a coverage map for IBM. This map was a key tool in rationalising their routes to market. Seven main routes worldwide, each of which was represented by a different colour on the chart, were identified. These include the IBM Global Services channel for major outsourcing 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, as it was termed, made modest changes to the 'closing channel' where sales are closed, with face-to-face sales slightly reduced, but quite substantial changes on lead generation, where 22% fewer leads were generated from field sales over a one-year period as other channels took up the slack. This allowed greater time investment by account managers to the crucial areas of post-sales delivery and support.

**Insert Figure 1 about here**

A further benefit of this standardised focus on seven routes to market for the entire global organisation was that the cost of managing channels was reduced, as staff internally and externally had a clearer idea of their role. A country marketing director estimated that his channel management costs had reduced by 50%.

The creation of innovative channel combinations.

The experience of the four cases we studied suggested that emphasis has moved away from 'pure-play' new channels to innovative channel combinations. In none were new channels straightforward substitutes for existing ones: rather, the transformed strategy involved innovative combinations of channels targeted at particular customer groups. At the very least, the possibility of combining channels within the same customer relationship, as opposed to simply having a range of channels for different customers, provides another strategic option which needs to be considered.

UK Trade And Investment is a case in point. The purpose of this public sector organisation is to improve the export performance of UK small and medium enterprises (SMEs). It had traditionally fulfilled this mission through a network of 200 consultants, situated in offices country-wide, who would advise clients face to face. This, then, represented a one-size-fits-all channel strategy. The organisation launched a project to segment its customer base and define propositions appropriate to each segment. This would include a review of its channel strategy as well as other elements of the mix.

The review began with a market research exercise, which simplifying somewhat, resulted in three major segments. '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 are fearful of the complexities and risks they associate with exporting, creating deep-seated barriers to progressing beyond the fulfilment of the few leads which happen to 'walk in the door'. 'Confidents' 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.

As part of the subsequent proposition development, channel combinations were developed for each of these broad segments by a team of managers. These can be represented using what we term a channel chain diagram, as shown in Figure 2. In this diagram, the stages of the sales and/or service process are listed down the left, starting at the top of the figure. The channels used to perform each stage are listed in boxes against each stage. If there is then a handover to a different

channel for the next stage of the customer relationship, this is shown with a line between the two boxes.

**Insert Figure 2 about here**

The 'aspirants', for example, 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, so this segment's overall proposition which the team termed "Passport to export" involved only minor modifications to channel strategy. The last thing the 'confidents' wanted, though, was to phone a local office and have an appointment made two weeks' hence when a consultant happened to be free. Instead, a 'buffet' approach was designed for them, dominated by the remote channels of a call centre with expert ringback plus the Internet, which would provide quick access to the answers they needed to their specific queries.

The pure face-to-face model was equally inappropriate for the 'reluctants', who tended to only approach UK Trade And Investment for help with fulfilling a specific order that happened to come their way, such as "how to get money out of Saudi Arabia" or "the customs paperwork for China". The management team concluded that the same remote 'buffet' designed for the experienced exporters met this specific need, but needed 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 was to convert some members of this segment to become 'aspirants'.

Hospitality Services, IBM and BT had also sought to design combinations of channels. IBM paid particular attention to how the handover was made between channels at different points in the relationship with the customer. The colours on their coverage map represented the 'leading' or 'closing' channel, therefore, and not the exclusive channel for that customer/product cell.   IBM believed that effective design of channel combinations should provide a natural journey for the customer, and also benefits to the organisation:

*"I don't think we can force customers to stay within a particular channel combination we have designed for them. But having gone through this thought process, the idea is that customers will gently steer themselves through a channel combination which suits them. And it suits us as it makes appropriate use of low-cost channels, where the customer doesn't need high bandwidth." Lead partner, IBM*

Iterative development of the value proposition melding planning and experience.

Any new service will require a redefinition of the customer value proposition. However, the managers interviewed described the highly challenging nature of this in the multi-channel world.  In some markets use of online channels is still the exception rather than the rule, for example, and

customer experience is not yet sufficient for them to be able to articulate what value offering would be optimal, although when they find a service disappointing they will abandon it very quickly (Reichheld and Schefter 2000; Agrawal *et al* 2001). Companies must therefore develop the capability of creating new services that customers will value without the market research that they might traditionally rely on. How can they do this without resorting to guesswork? A key seems to be a more experiential approach (Eisenhardt and Tabrizi 1995) which involves hypothesising a value proposition and then trialing it in the marketplace and using feedback from customer interactions to validate and tune the proposition.

BT used an experimental design incorporating control cells in order to learn from its early experimentation in its route to market within its major business division, which served the top one thousand accounts. Until 2001, the division sold almost exclusively through two thousand field sales representatives. A channel strategy exercise proposed a new model: a combination of field sales staff for more complex sales to high-value customers, the web for simple transactions to low-value customers, and a new desk-based account manager (DBAM) channel –professional account managers, but working exclusively from the office - in the middle. Its new coverage map was thus very similar to that of Hospitality Services, and is illustrated in Figure 3.

BT decided that the first step to test the efficacy of this new model was to conduct a pilot:

> *"Given the nature of the change, the risks of it going wrong and the impact upon our reputation with BT's largest clients, we needed to progress carefully, piloting every step, learning, rolling out, and enhancing every part of the effort" Channel director, BT*

The pilot involved allocating 12 DBAMs to a pilot set of accounts, who had their field sales representation reduced accordingly. Importantly, they were working in an integrated team with field sales staff, because as the coverage map makes clear, a single customer may deal with two or three different channels depending on the sales complexity of the product. The team could communicate with each other about customer interactions via a simple shared prototype IT system, in order to deliver an integrated customer experience: the subsequent full rollout used the Siebel CRM system for this purpose, but the technology was kept simple and flexible for the pilot.

Some business rules were drafted for the pilot that allocated sales leads to channels based on the coverage map. Significantly, though, the staff in each channel were authorised to overrule this automated allocation of leads if they felt that individual circumstances required a different approach. In the pilot, around 60% of the automated channel recommendations were accepted: in the subsequent rollout, this figure has increased to 80% as the business rules have been refined.

After a trial period, the pilot was evaluated on three criteria: cost of marketing and sales as a proportion of revenue, or 'expense to revenue ratio'; customer satisfaction; and employee satisfaction. The pilot found the cost of sale had decreased from 25% of revenue to 17% due primarily to the lower cost of employing desk-based account managers. Customer satisfaction actually went up: the project manager's interpretation of this was that customers were able to access DBAMs more quickly than field sales staff and therefore were able to deal with simple matters more effectively. Employee satisfaction remained constant – itself regarded as an achievement in a situation which was inclined to be threatening to the field sales staff.

The pilot was regarded as a success, and a rollout of the new channel model followed over the following three years, to a point where a fifth of the field sales force had been replaced by desk-based account managers. As well as decreasing the cost of sale, the interviewees claimed that over £100m of additional annual revenue had been gained by 2004 due to the channel transformation, as the field sales force was freed up from simple tasks and able to focus on significant opportunities.

Similarly, Hospitality Services intended to use random experimental and control group allocation to confirm the findings from their geographically-based pilots:

> *"We'll divide the next thousand sales leads in the [x] sector into two groups. The first lead to the sales force, the second to the call centre the third to the sales force and so on. We won't tell either party of course. Now that will be interesting!" Interviewee, Hospitality Services*

Integration of processes and IT to support multi-channel customer relationships.

By contrast, the last three capabilities listed in Table 2 are associated with integrating channels together. Perhaps counter-intuitively, systems integration does not seem in tension with the need for swift innovation: rather, it provides a platform on which the company can experiment with different channel combinations performing different roles in the customer relationship, and communicating with each other via the shared IT systems.

BT, as we have mentioned, implemented a CRM system as a crucial underpinning of its transformation from field sales force to multi-channel marketer. Once its Siebel system had been rolled out to all sales and service staff, the channel director soon extended the rollout to the indirect channel partners so they could draw on the same unified data on leads and existing customers. This enabled BT to analyse and improve the effectiveness of the distributor channel under the same metrics as the internal channels.

Hospitality Services similarly soon concluded that its call centre partner needed access to its core customer management system. Initially, the call centre used its own system, and transferred a batch

of data to Hospitality Services periodically through a campaign, but once the economics of the early work had been proved, it was soon felt necessary to give call centre staff direct access to the customer management system so they could deliver an integrated customer experience and come across as fully informed on the customer's previous interactions with the company.

An organisational structure which balances the need for innovation and integration

Another dimension of integration concerns 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 (Chaffey 2002). But BT 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 4, was 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 appears to help to consolidate learning in best practice within each channel, while the vertical reporting keeps the account director responsible for all the channel resources deployed on the account.

**Insert Figure 4 about here**

Metrics and rewards which reflect multi-channel customer behaviour.

Similar cross-channel thinking seems necessary in the definition of metrics and rewards. For example, 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 renumeration package as a key driver of changed behaviour. In other cases, the complementary roles of different channels at different points of the customer relationship were reflected in the recognition of the value of leads which are passed for fulfilment to a different channel.

BT had 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, as we have already mentioned. The alignment with rewards comes, though, with the account manager's targets, which include a stretching target for expense-to-

revenue ratio, 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.

Hospitality Services resolved the issue by a yet simpler approach. To encourage cross-channel cooperation, the organisation switched from bonuses based on individual or group performance to a single bonus system for the organisation based on the whole organisation's cash flow for the year. It is difficult to isolate the impact of this initiative from the other simultaneous management changes, but the company's perception that this resulted in no loss of motivation or staff retention while removing some dysfunctional channel silo behaviour seems plausible and consistent with the company's employee satisfaction survey data.


## Conclusions

Due to the paucity of previous studies in this domain, our study adopted an inductive approach, identifying seven dynamic capabilities for channel transformation. Of these, we categorised four as innovation-related, but importantly we also found that three integrative capabilities are critical to route-to-market transformation, relating to IT, organisational structure and metrics/rewards. Organisations must not only be able to find how to make use of new channels, but also bring those channels into their standard way of operating, if the organisation is going to deliver an integrated customer experience and make the most of synergies between channels. In this respect, our study supports the argument made by Lawson and Samson (2001) for managing the 'mainstream' and the 'newstream' in a closely coupled way, while adding detail as to how this can be achieved in the case of marketing channels.

An important finding of the study therefore is that channel strategy presents organisations with a tension between two distinct groups of dynamic capabilities that must be balanced. On the one hand, managers need to develop innovative channels that change the way the company operates and how it interacts with its customers, while on the other, they need to keep the organisation operating as a single, coherent entity so as to create innovative channel combinations and deliver consistent service.

Dynamic capability theory provides at least a hint of how this tension might be managed. In high-velocity markets, Eisenhardt and Martin (2000) assert, dynamic capabilities become simple, experiential and iterative. This was found to be the case in three of the companies studied here, where channel strategy was evolved by setting an overall, clear and simple vision for the intended transformation. This was then broken down into a series of smaller projects, to which the companies applied a 'learning by doing' (Pisano 1994) approach, and not just a 'learning before

doing' one. Subsequent stages of development, rather than follow a pre-determined linear sequence, would iteratively depend upon the outcomes and learning produced from earlier projects. It is consistent with Eisenhardt and Martin's assertion that the exception, UK Trade And Investment, which developed and executed its channel strategy in a more planned manner, operates in a market with comparatively low turbulence.

<u>Implications for Managers</u>

The implications for managers can be summarised under the headings of the seven dynamic capabilities of table 2.

1. Companies can gain from actively and regularly reviewing the route to market, rather than taking it for granted as 'the way things are done in our industry'. Innovation in the channel mix can be a source of competitive advantage as valuable as innovation in the product/service offer. The frequency with which review this is necessary depends on how turbulent the market is.

2. This review needs to bear in mind that the optimum route to market will generally vary both by segment and by product. The coverage map (Friedman and Furey 1999) is a tool which managers can consider to help with this task.

3. Combining multiple channels within the same relationship provides further innovation possibilities. During the dot-com boom we saw many new pure-play entrants into B2B markets, amongst them such now-defunct e-marketplaces as Covisint and Chemdex as well as a smaller number of successes. Perhaps many of the 'quick wins' from pure-play Internet sales, or indeed from single-channel telephone operations, have already been gained, however, as channel innovation shifts away from new channels to new channel combinations. We have described a simple tool we term channel chain diagrams, which spell out how channels combine in the customer relationship. However it is drawn, though, it appears that channel chain analysis can act as a shared representation within a management team while it discusses the optimum channel proposition relative firstly to customers' differing needs at different points in the relationship, and secondly to the use of expensive physical and human assets in a more targeted manner.

4. A planned approach to multi-channel strategy may need to be combined with experimentation and piloting to refine the plan. An experimental design using control groups is worth considering when a radical shift in channel policy is being contemplated.

5. Customer relationships sustained across multiple channels will generally need to be underpinned by a CRM system. This may need to be made available to indirect channel partners as well as direct channel staff.

6. An organisational structure that is strongly built around channel silos may have weaknesses if the customer relationship is sustained across multiple channels. A matrix structure or a structure around customer groups may be worth considering.

7. Similarly, metrics and rewards can be in tension with a multi-channel strategy if they encourage staff or channel partners to keep the customer within a single channel.

<u>Limitations and Further Research</u>

There are always limits to the generalizability of case study research, as it is difficult to rule out the possibility that the sample organisations are in some way unusual, particularly with a relatively small number of cases. We would therefore welcome further studies to confirm and extend our findings. Further studies could check for any additional dynamic capabilities important in channel transformation as well as checking and refining those we have identified. In particular, our inductive study identified five of the seven innovation elements cited by Lawson and Samson (2001). Further studies, particularly of players in other markets, may identify capabilities related to the other elements that they propose.

The differences we have discussed in how companies plan their route to market according to market turbulence would also benefit from further research. It would therefore be helpful if future case study research were to include a spread of organisations with different levels of market turbulence in its sample frame.

A survey approach to this topic will become increasingly feasible as case study work continues and the relevant constructs are identified, and could provide a more complete descriptive picture of current practice. Testing of hypotheses based on our proposed dynamic capabilities would, however, face the not inconsiderable challenge of constructing a dependent variable for the success of a multi-channel strategy. We suspect that case study research is likely to be more illuminating in the short term.

As underlying markets become increasingly dynamic, an improved understanding of the role of dynamic capabilities will become imperative, both for academics who wish to provide understanding and guidance to practitioners, and for managers who must operate in a continually shifting world. We hope this study adds a small step along the path to this improved understanding.

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**Table 1: Case Studies Undertaken**

| Case Study | IBM | British Telecom Major Business (BT) | UK Trade And Investment (TAI) | Hospitality Services (HS) |
|---|---|---|---|---|
| **Industry Sector** | IT and consulting | Telecoms and IT (B2B) | Export consultancy to SMEs | Services to hospitality sector |
| **Headquartered** | US | UK | UK | UK |
| **Turnover (2004, approx)** | $96bn | $8bn | $50m | c.$200m |
| **Geographic Markets Served** | International | International | International | UK |
| **Nature of channel transformation** | Major programme completed to simplify IBM's route to market into seven main channel combinations globally | Introduction of desk-based account managers and integration of all channels via single CRM system | Channel strategy developed to serve three broad segments through appropriate channels (vs previous one-size-fits-all) | Project to evolve from field sales model to mixed channel model using call centers and the web |
| **Commentary** | These seven combinations are now well embedded into operational systems, enabling management information to be collated by channel as well as product, geography etc | 300 field sales people replaced by desk-based account managers so far. Savings in cost of sale as well as increase in revenue as field sales can focus on largest deals | One of the segments suited the traditional face-to-face approach. Another suited a teleweb model. The third used one-to-many approaches including seminars and PR. | Pilots of call center sales have significantly lowered cost of sale, and thereby increased revenue as sales budget goes further. Roll-out to some sectors in progress. |
| **Relative Turbulence of Underlying Market** | High – the IT industry creates and destroys competitors at pace. Consulting continues to consolidate, with IBM having integrated its PwC purchase | High – the telecoms market, like other sectors of the information and communications industry, has been impacted by rapid technology change (eg mobile devices, voice over IP) and increased competition | Low – consolidation in major consultancies has relatively little impact on SMEs, which continue to be served by fragmented providers of advice including banks, accountants and specialist consultancies | Medium – rapid consolidation in some subsectors such as restaurants. Increased emphasis on consumer experience sees new requirements placed on service providers. |
| **Market Turbulence due to Channel Competition** | High – major players continue to experiment with the boundaries of Dell's direct model, and with different permutations of indirect channels | Medium – internet contributes to lowering prices for simple offerings, forcing players to rethink channel strategy to maintain margins & revenue | Low – While some peer-to-peer networking for SMEs is now supported online, most advice is gained face to face and direct from the advice providers | Medium – the buying power of consolidated hospitality providers is pressuring their suppliers on price, which in turn encourages use of low-cost sales channels |
| **Number of Staff Interviewed** | 4 | 5 | 4 | 5 |

**Table 2: Dynamic Capabilities for Multi-Channel Transformation**

| Dynamic Capabilities | Capability Observed* | Example from Cases | Nature of Dynamic Capability - Lawson and Samson (2001) |
|---|---|---|---|
| Active review of the route to market in a cycle of strategy development and implementation | IBM, BT, HS | "This project has kick-started a whole cultural change for us. We are applying the same logic to other markets. Can we make such radical savings in the cost of sale again? I see myself as an ambassador for change now.  And it's a never-ending process." Sales and Marketing Director, Hospitality Services | Innovative (Vision and strategy) |
| The alignment of route to market with different segment and product characteristics | All | "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 a customer to a channel." Marketing managing partner, IBM | Innovative (Organisational intelligence/ harnessing the competence base) |
| The creation of innovative channel combinations | All | "What the segmentation has done for us is fascinating. Yes, we've learned that different segments need different channels. But also, we've realised that each segment might need several channels complementing each other. Telephone and web for the experienced exporters, for example." UK Trade And Investment | Innovative (Creativity and idea management) |
| Iterative development of customer value proposition melding planned and experiential approaches | BT, TAI, HS | "It's about learning to experiment, isn't it? I thought it was going to be all about planning. But all this piloting and control groups is more like launching a new product. Find out what works, tweak it, try it again." Hospitality Services | Innovative (Organisational intelligence) |
| Integration of processes and IT to support multi-channel customer relationships | All | "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 | Integrative (management of technology) |
| An organisational structure which balances the need for innovation and integration | IBM, BT, HS | "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 general manager, BT | Integrative (organisational structure & systems) |
| Metrics and rewards which reflect multi-channel customer behaviour | IBM, BT, HS | "Client managers had small, simple things taken out of their remuneration scheme – they were only required to get involved when things went wrong." Project manager, IBM | Integrative (culture & climate) |

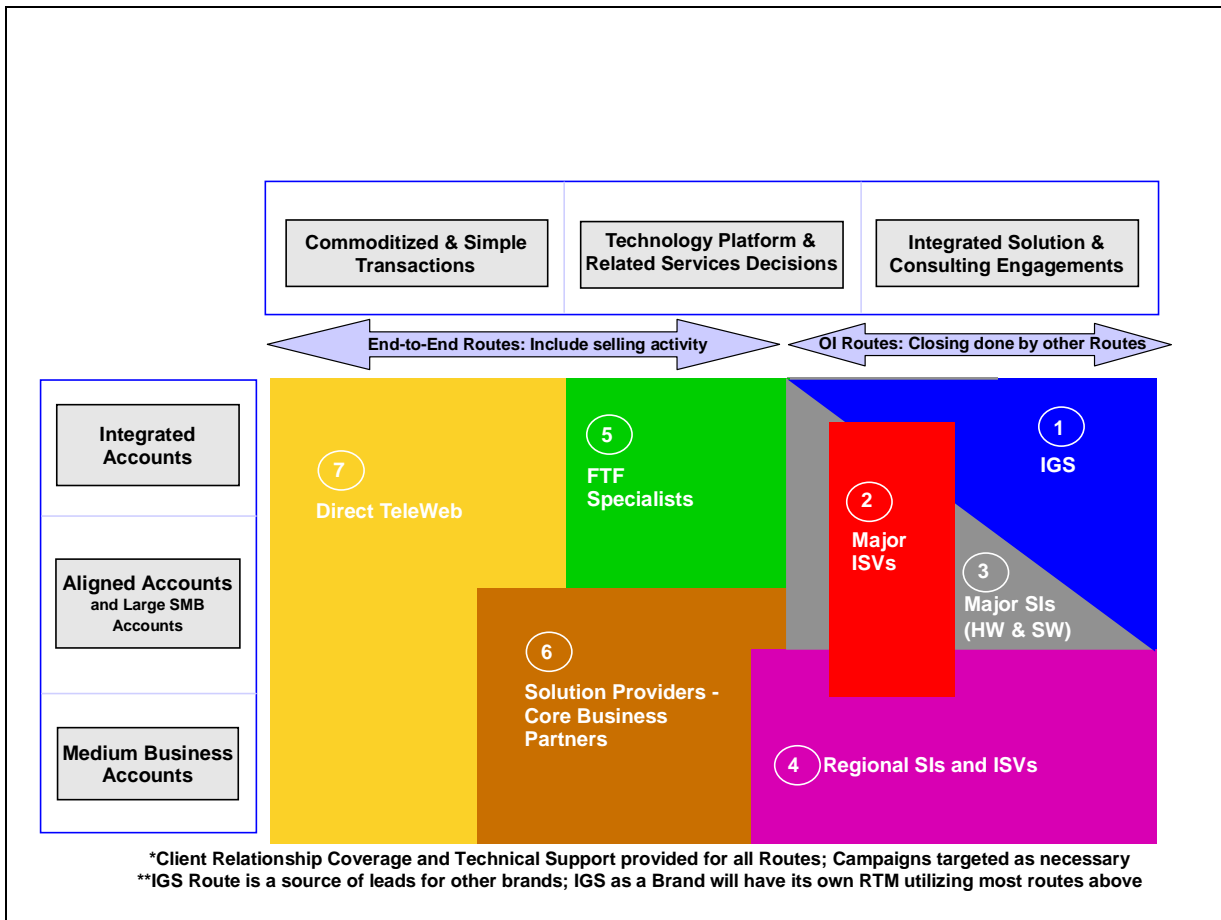*Cases listed are where explicit data on the capability was found in the interview transcripts
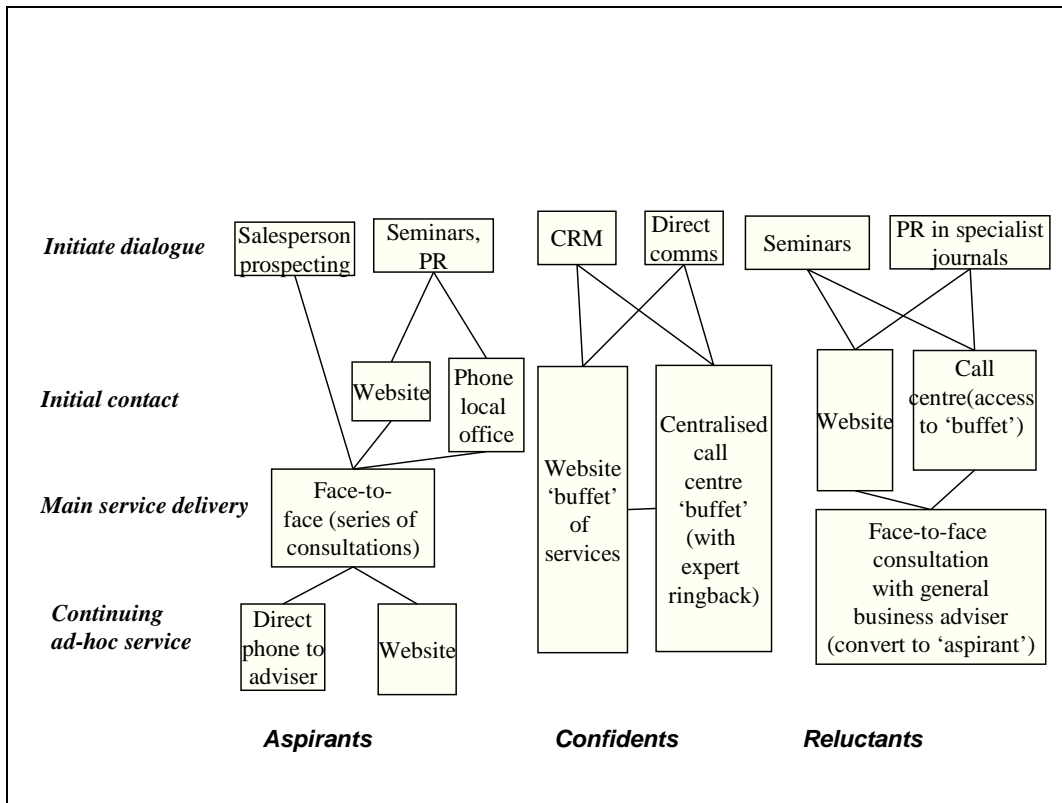
Figure 1: Coverage Map for IBM

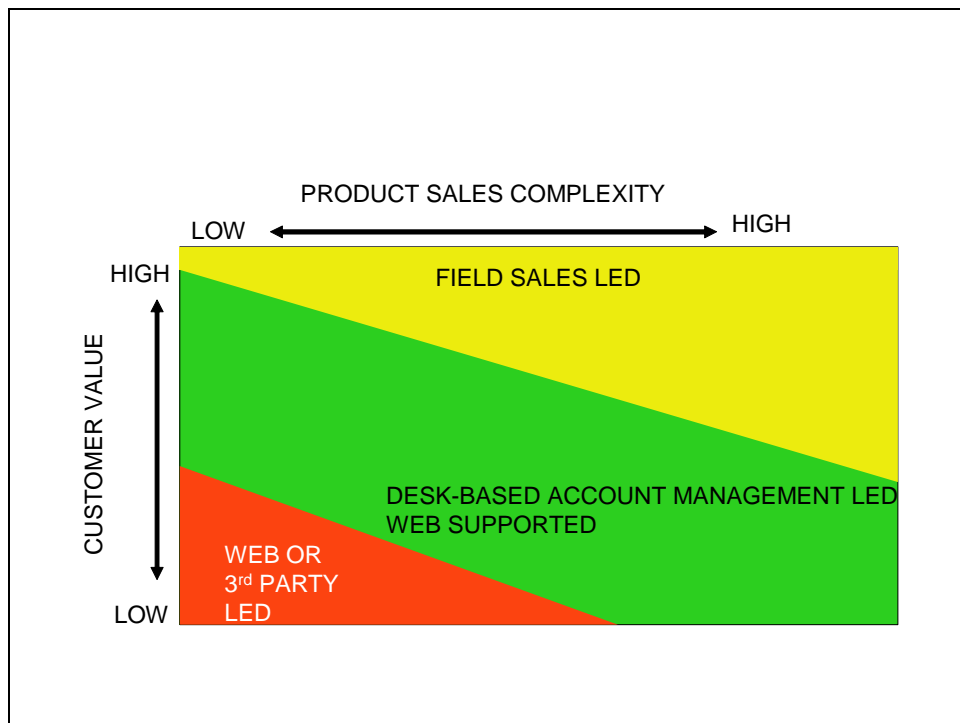**Figure 2: Channel chains by segment – UK Trade And Investment**



**Figure 3: Coverage map - BT Major Business**

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

**Figure 4: BT's channel structure**