

## Crossing the Great Channel Divide

BY LARRY KELLEY AND KYLE ALLEN

Today's consumers have a wealth of ways to research products and make retail purchases. Armed with more information than ever before, they are changing the way they interact with retailers.

Consumers are embracing everything from retail to e-tail, from bricks and mortar to clicks and calls. In fact, a recent study shows that in the 90 days before making a purchase, 87% of adults research the product online. (Source: BigResearch CIA, June 2006) Not surprisingly, the job of retaining customer loyalty is becoming correspondingly difficult. One day, an individual may be among your most steadfast in-store customers. The next, he's making his purchases online. Your key catalog customer may suddenly change from using the catalog as a buying vehicle to merely using it to confirm product pricing.

As consumers change their retail purchasing behavior, marketers try to keep up. This is nothing new – consumers lead and business follows. For consumers, this means taking advantage of the growing number of options that give them more control over when, where, and how they shop.

### Multi-Channel vs. Silo

In earlier, simpler times, each retail channel was a distinct business type. You were either a cataloger, a place-based retailer, or, more recently, an e-commerce merchant. However, the days of the single-channel retail brand are quickly coming to a close. Many retailers today have become power brands that cater to a variety of consumer touchpoints through multiple channels.

While retailers scurry to respond to consumers' shopping habits, they may struggle to make the dramatic operational changes required. Traditionally, each channel operates as a silo under the purview of one person who is responsible for thoroughly understanding that channel. There is little interaction with the other channels. But for consumers, this "one-channel, one-approach" retail management style is hopelessly out of sync – they want it all. In a nutshell, as consumers embrace a variety of channels, retailers are caught in archaic structures created for single channels.

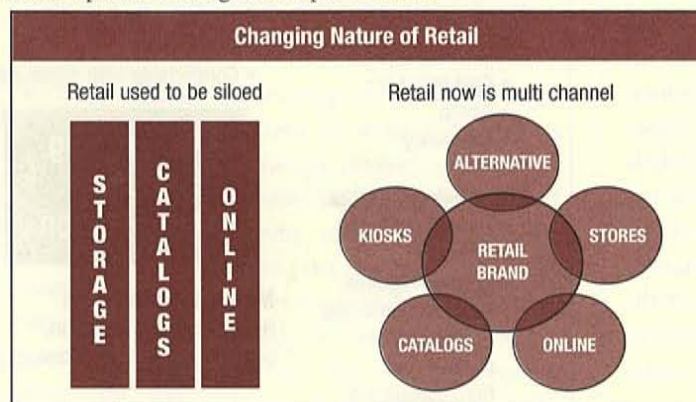


Figure 1. Changing Nature of Retail

### About the Authors

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## Channel Planning

Channel planning (sometimes called “communications planning”) is a powerful way of gaining insight into consumer behavior. Originally a media tool, channel planning can now be applied to retail messaging and merchandising as well. By considering all forms of communication that can potentially reach a customer, it enables retailers to overcome the “silo effect” and promotes the exchange of ideas and tactics among the relevant channels.

Ultimately, channel planning enables retailers to align message, merchandising, and media and helps unify competing forces and departments within the organization. Above all, it reveals what’s relevant and important to consumers and answers the question, “How can we get the right message to the right consumer in the right way?”

Today there are more potential contact points with the consumer than ever before. Figure 2, above right, highlights just 29 of them. So how can we identify the right channel?

### Step 1

Conduct research to unlock the points important to potential customers. These may include: the amount of detailed information they need, how much trust they must have in the product, how important price is to the selection process, their previous experience with the product, and to what extent quality is important to them.

The point to remember is that consumers can tell us what matters to them when they’re making product decisions and these factors can vary by category and product. For example, you may want

Advertising Media Channel Options			
Television	Product Articles	Airport Advertising	In-Store Advertising
Home Shopping Television	Free Customer Magazines	Public Transportation	Examining In-Store
Product Placement	Loose Inserts	Doctor's Office	Price Promotions
Movie Theater	Internet Advertising	800 Numbers	Product Samples
Radio	Internet Search	Direct Mail	Personal Recommendation
Newspapers	Company Websites	Celebrity Endorsements	Professional Recommendation
Magazines	E-mails	Sports Sponsorship	
	Outdoor	Event Sponsorship	

Figure 2. Advertising Media Channel Options

to ask consumers how good each media channel is at helping them decide if they can trust a brand. Channels range from traditional media, such as television, to in-store opportunities to examine the product, to recommendations from friends and family, to online or e-mail marketing – even to celebrity endorsements. Keep in mind that in today’s highly fragmented media landscape, consumers are exposed to many points of contact beyond the traditional TV and print channels that retailers have long relied on.

### Step 2

Once this research is complete, marketers can perform a factor analysis to identify the elements most important to the product purchase and the best media sources for communicating them. At that point, each medium is weighted according to its ability to deliver the targeted consumers, as well as its cost effectiveness. The resulting output enables marketers to have a thorough understanding of which factors are important to consumers and how well



Figure 3. Advertising Media Channel Planning Model

the various communication channels address them.

Figure 3 outlines the fundamental elements of the channel planning model. Keep in mind that each element is centered on what is important to the customers, not what is important to the advertiser.

The completed research and analysis phases will yield a list of the various communication channels and their order of importance for achieving optimal marketing results.

### Using Channel Planning

Now that we've established what channel planning is, let's discuss how we can take this consumer-centric approach and extend it to media planning, messaging and merchandising.

#### Media Planning

The beauty of channel planning is that retailers can model their advertising responses by category and by SKU. Let's

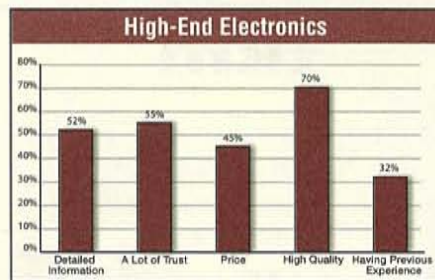


Figure 4. High-End Electronics

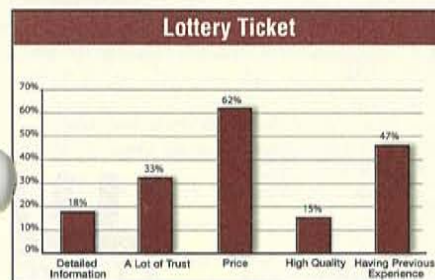


Figure 5. Lottery Ticket

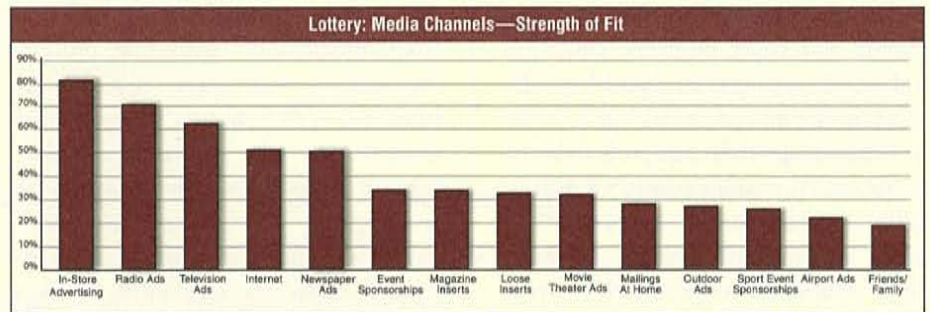


Figure 6. Lottery: Media Channels – Strength of Fit

take a look at a mass merchant that offers a wide range of categories and price points. One category may be high-end electronics, while another may be lottery tickets, Figures 4 and 5, below.

Different criteria are used for making these purchases. Buying a lottery ticket is more of an impulse purchase, while buying high-end electronics is usually a well-planned decision. High-end electronics are available from multiple retail channels such as online and in-store, while lottery tickets are available only at retail locations. From a consumer's perspective, each type of purchase carries very different requirements.

When making a costly consumer electronics purchase, consumers indicate that product quality and trust are very important. However, buying a lottery ticket is a relatively low-risk purchase, and the essential marketing factors that are important to consumers are price (relatively low) and previous experience (they may have won in the past).

Channel planning helps unlock the best media options for conveying essential elements important to making a purchase. This is a prime example of "consumer-centric" communications planning. Let's take a look at a lottery ticket, Figure 6, above.

Notice that in-store media is at the top of the list. This makes sense, because impulse purchases are operationally defined as those that are made spur of the moment. So, in this case, the category merchant and the CMO should increase their in-store support. The second media element that impacts impulse purchasing is broadcast – radio and TV. This suggests that media exposure close to the time of purchase can help trigger a sale. Knowing that in-store media and broadcast are both important drivers of purchasing behavior among lottery ticket buyers is an important insight and should be used to shape media plans to leverage communication dollars for maximum effect.

Now let's take a look at a very different purchase situation: high-end electronics. In most cases, spending hundreds or thousands of dollars is a carefully researched and planned purchase. Consumers require a lot of trust when making such a purchase because of the significant financial and psychological risk involved. But if trust were the only variable, we would see TV and newspaper advertising rise to the top of the list. As it is, there is also a need for considerable category/product information. The list of channels that consumers indicate can convey this successfully is shown in Figure 7.

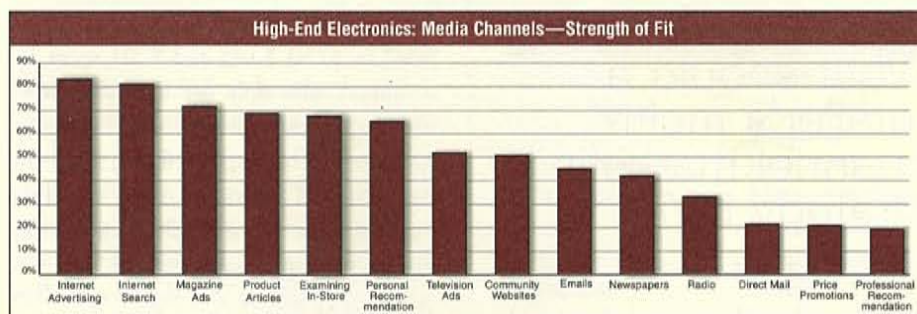


Figure 7. High-End Electronics: Media Channels—Strength of Fit

In this case, the leading channel options include online – with a heavy emphasis on search-engine marketing – and, to a lesser degree, offline print. So the category merchant and the CMO should develop an online strategy that can deliver detailed information about the products offered. This might also include a presence in key consumer electronics magazines, as well as a URL link in the ad directing consumers to the merchant's website to find even more product information.

#### Messaging

Channel planning also provides a consumer-centric point of view that can provide key insights for shaping the sales message.

All communication has two fundamental elements: *content* and *tone*. Content is the information conveyed. Tone is the way it's conveyed. Knowing which information is important to a customer who is in a buying state of mind can be a powerful tool. Marketers can use what they discover during channel-planning research to help determine what the advertising should say and how it should be said.

For example, in some product categories, such as computers, consumers require detailed information about

brands. Thus, in this category brands typically communicate details that help consumers make comparisons – such things as available memory, processing speed, monitor size, and so on. Computer manufacturers have responded to this consumer need by placing specifications for their systems in print ads, catalogs, and online advertising.

Because consumers spend large sums of money on computers, trust is also important. For this reason, the tone of much of the advertising in this category is typically straightforward, positive, and imparts confidence that the new computer will deliver the promised benefits. (There are exceptions, of course. A brand's context is always an important consideration. Apple Computer's most recent TV ad campaign takes a humorous stance as it compares Macs with Windows-based PCs. It is certainly possible that Apple's research indicated that potential Mac buyers would be more receptive to a "softer," more humorous, ad message – one that communicated the differences between Macs and PCs.)

#### Five Consumer Needs

Following are the needs customers say are most important when making purchase decisions. Suggested responses follow.

#### ■ Detailed Information.

**Action:** Show detailed product specifications, provide technical data that can be referenced online or in-store.

#### ■ Trust.

**Action:** Provide endorsement by celebrities, generational peers or third-party groups that are trusted to provide objective opinions (e.g., *Good Housekeeping Seal of Approval*).

#### ■ Price.

**Action:** Communicate price point relative to competitive products.

#### ■ Quality.

**Action:** Utilize rankings and awards to demonstrate product superiority relative to others in the category.

#### ■ Previous Brand Experience.

**Action:** Leverage testimonials of brand users to reinforce core product attributes.

In many cases, consumer needs are inter-related. A trusted brand may have a reputation for good quality that is reinforced by previous positive brand experience.

By understanding what is important to consumers, marketers can shape the message to communicate detailed information about products, trust in the brand, price (high or low), and brand quality; or to leverage the consumer's previous experience with a brand.

#### Merchandising

Consumer insights aren't limited to just making better advertising media or messaging decisions. After all, advertising is an important ingredient to retail sales but certainly not the only means of increasing sales. The consumer insight information from the channel planning process can help shape

a category's merchandising and/or marketing program.

Since channel planning can be honed down to the SKU level, it is possible for a category manager to use this process as a filter to understand the consumer sales dynamics for that category. The key questions to ask are:

- How do consumers prefer to buy the SKU?
- What is important to consumers in making this purchase?
- How is this SKU best sold to the consumer?

By assessing how consumers prefer to buy each SKU, the category manager will determine if he is in retailing, e-tailing or a combination of the two. Let's take the home furnishings category as an example. It may become readily clear that consumers would prefer to come in to the store to buy sofas and chairs but may be much more likely to purchase lamps, tables and desks online. This category, then, would require a combination of in-store and online selling.

### Conclusion

The world of traditional retailing is undergoing a tectonic shift. Channel planning enables retailers to adapt to the changing landscape by more tightly aligning their media, messaging, and merchandising strategies, thus unlocking new potential for sales and profit. Channel planning helps break down the walls that have historically separated these areas, by focusing on the most important aspect of the business – the consumer.

### Research Insights

## What should a retailer's multi-channel marketing strategy be?<sup>1</sup>

BY VENKY SHANKAR

Multichannel marketing is a buzzword. Every company is talking about it. What exactly is it? What do we know about multichannel shopping behavior? How can retailers formulate a sound multichannel strategy? What are some of the best practices of multichannel strategy?

Multichannel marketing is the practice of simultaneously offering information, goods, services, and support to customers through two or more synchronized channels such as the catalog, store, and the Web. The role of each channel varies not only with the characteristics of the shoppers, but also with those of the product categories and the task involved. Retailers face an increasing challenge of formulating a unifying multichannel strategy that maximizes their profits and enables them to make critical decisions on the allocation of resources across channels.

Several studies suggest that multichannel shoppers might be more attractive to retailers than single-channel customers. A study by DoubleClick found that 65% of consumers were multichannel shoppers and their size was increasing at about 16%. Forrester Research found that more than two-thirds of the consumers search products online, but make a purchase offline. A few firms are noticing the dramatic impact of multichannel shopping behavior on their revenues. A study by JC Penney found that its customers who use all three channels (store, catalog

and the Web) spent \$887 per year compared to \$150, \$195 and \$201 spent by customers who only use the Web, store, and catalog, respectively. Another study by McKinsey & Company found that, on average, retail customers using multiple channels spent about 20-30% more than customers using a single channel.

A retailer's first step in formulating a sound multichannel marketing strategy is to understand the shopping behavior of customers for its and its rivals' products. To analyze the shopping behavior, the retailer can use different types of data such as its own point of sale data, loyalty program data, store level and panel data from third-party vendors, and Internet clickstream data. Managers can use statistical models to identify segments of customers by channel, and determine the drivers of the recency, frequency, and monetary value of their purchases. They can supplement their analysis of behavioral data with analysis of shopper attitude survey data. The retailer can then determine the profitability of its customer segments and individual customers and prioritize them for targeting. Managers can use the geo-demographic information of the shoppers to come up with alternative marketing campaigns and programs. By testing some alternative campaigns on a sample of customers, the retailer can ascertain the impacts of marketing actions and choose the most effective campaign. Finally, by monitoring the responses to the campaigns, the retailer can revise its multichannel marketing strategy on an ongoing basis.

Using a large syndicated database of the shopping behavior of about 96 million households and that from an apparel firm, we conducted a large-scale research study

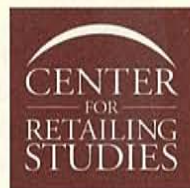
to develop a framework to help managers identify and target profitable customers and make appropriate channel-specific resource allocation decisions based on the current and expected future profitability of customers. We examined questions such as: Who are multichannel shoppers? What drives multichannel shopping behavior? How valuable are multichannel shoppers to the firm? How responsive are multichannel customers to a firm's marketing efforts? How should resources be allocated to different customer-channel segments?

The results from our study show that multichannel shoppers buy more often, buy more items, and spend considerably more than single-channel shoppers. The equity (financial value) of multichannel customers is nearly twice that of the closest single-channel customers (online or offline). The demographic characteristics and shopping traits of these multichannel customers differ significantly from single-channel customers. The results also show that customers' responses to marketing efforts vary significantly across the customer-channel segments. We find that marketing efforts influence purchase frequency, purchase quantity and monetary value in different ways. The findings suggest that catalog-only and multichannel customer segments are most responsive to marketing communications, while the Web-only and store-only segments respond more to price and discounts, respectively. The findings also show that a firm can substantially improve profits by as much as about 30% by reallocating marketing efforts across the different customer-channel segments.

Multichannel marketing offers retailers an important opportunity to consolidate and grow their businesses. In addition to offer-

ing customers more channels to shop from, multichannel marketing provides organizations with greater opportunities to interact with customers, promote other channels, use price differentiation tools, segment customers specific to a channel, and target product categories to specific customer segments. By honing their multichannel marketing capabilities, retailers can build stronger relationships with their customers and begin developing the core competency that promises to become a hallmark of world-class retailers.

<sup>1</sup> This article is partly based on research by Tarun Kushwaha (Doctoral candidate, Mays Business School and Associate Professor Designate, University of North Carolina at Chapel Hill) and Venkatesh Shankar on multichannel marketing. To contact Dr. Shankar please email [vshankar@mays.tamu.edu](mailto:vshankar@mays.tamu.edu) or visit his website at [www.venkyshankar.com](http://www.venkyshankar.com).



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