The Henley Centre for Customer Management

How companies can switch customers to the use of low cost channels without risking the customer relationship

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1. Executive Summary

1.1. Channel Migration

Channel migration refers to the practice where an organisation introduces alternative (usually lower cost) channels and wishes to encourage customers to switch their business to the alternative channel. For example:-

1. A call centre might be introduced as an alternative to a direct sales force
2. A self-service internet channel might be introduced as an alternative to a physical retail outlet

This research looked at organisations that have taken such a channel migration approach in both B2B and B2C environments. In addition to considering the effect of the approach on customers, the project also looked at the internal company impacts that are usually caused by a change in the “go to market” strategy. It considered, for example, the impact on sales people and on customer service representatives.

The emergence of channel migration is the result of the recent history of developments in “go to market” strategies. In the 1970s price was the predominant topic in board room discussion; while the 1980s saw discussion about the customer being king. Since the mid 1990s, themes such as relationship management and alternative channels have appeared. Companies have pioneered the use of different sales channels and utilised the internet (Wilson 1996) and effective channel management is one of the currently predominant themes.

The research was conducted through a number of interviews based around a set of research questions. The purpose of these questions was to distil best practice and to identify additional questions for more detailed further research.

1.2. Findings

The main findings of this initial research were that, regardless of what channel is offered to customers, the factors driving a positive outcome are:

1. Customers find the channels easy to use.
2. The offering is based on a clear understanding of the customer’s requirements.

In the Retail sector only, employees were unaffected by the introduction of the new Channels as this was seen as an additional service rather than a substitution of existing channels. When a sales force was down-skilled from direct customer contact to a telesales or web-based approach the affect on employees was negative. In contrast, up-skilling was viewed positively by contact centre employees as their jobs were enriched through new techniques and approaches. All employee change programmes were supported by appropriate training activities.

There was no link identified between customer experience and employee engagement, or between customer engagement and segmentation.

The Banking and Information Technology industry articulated a clear segmentation strategy. In Banking, segmentation was driven by profitability and existing relationships. In the Information Technology sector, segmentation was driven by customer value and requirements. All other companies segmented their customer base but the methodologies applied where not explicit.

Business customers appear to be more interested in process optimisation and do not expect to be contacted by sales staff in person, or over the phone, for transactional tasks such as re-ordering. There are clear commonalities between the business propositions of B2B and B2C. One of the major differences is that while consumers appear to complete their research on the internet, they still have a need for personal interaction. Also, consumers were generally incentivised to switch channels for their interactions.

1.3. Reflections

Although the findings are not conclusive and further in-depth research is required, it appears that on many occasions the customer was not the centre of attention when channel migration projects were kicked off. Some initiatives were apparently driven by internal Technology departments and not by customer requirements.

The most significant learning from the study is that companies need to base their channel activities on customer requirements and those customers who are happy to use low cost channels. Indeed in quite a few instances customers prefer the usage of low cost channels.

1.4. Practical Implications

A focus on meeting identified customer requirements should be pivotal when setting out on a journey to switch them to different channels.

This theme of understanding customer needs has been recurring since the 1960s and should not be ignored. Theodore Levitt, 1960 in his very influential article stated that an industry begins with the customer and his needs, not with a patent, a raw material, or a selling skill. Given the customer's needs, the industry develops backwards, first concerning itself with the physical delivery of customer satisfaction (Levitt 1960).

2. Introduction

2.1. Why is this topic so important

Controlling costs and at the same time keeping customers and employees happy is surely one of the biggest challenges facing companies at the present time. This notion is supported by recent research which identified that customers know what they want but are inherently and increasingly disloyal (Vlachopoulou, Manthou, and Folinas 2005). The globalisation of markets , eMarketplaces, outsourcing, eBusiness models, supply chain complexity and customer focus, are the most important organisational / business challenges motivating channel partners to view the electronic management of their relationships as a strategic component of their efforts to grow revenue while controlling cost.

This research sought to uncover the following:

- What is best practice for encouraging customers to change their relationship from being in direct contact with a sales person to using a lower cost channel such as a call centre or the internet.
- How were customers encouraged to use lower cost channels as the primary channel of choice?
- What are the commonalities between B2C and B2B?

3. Method

3.1. Selection Process

6 companies participated in the study. The companies were clustered into the following industries:

- Information Technology: 2 companies, Fortune 100 and 500
- Telecommunications: 2 companies, FTSE 100
- Retail: 1 company, FTSE 100
- Banking: 1 company, DAX

The business propositions were as follows:

- B2B: Information Technology
- B2C: Retail, Telecommunications and Banking
- B2B and B2C: Telecommunications and Banking

3.2. Interview Schedule

The purpose of the interviews was to gain an understanding of how channel migration is managed within the selected companies.

Semi structured interviews were conducted from 14th October 2007 to 4th January 2008 and lasted between 45 and 60 minutes. To avoid bias while interviewing 3 of the interviews were conducted by 2 interviewers (Easterby-Smith, Thorpe, and Lowe 2002). After obtaining approval from the interviewees, all interviews were recorded and transcribed so they could be referred to more easily. The data gathered was treated anonymously.

The initial, introductory questions asked interviewees to describe their organisation and the channel migration projects run within their respective companies.

To ensure consistency, non bias and that all areas of interest were covered the following interview framework was used as a guideline (Table).

Introduction - broad questions	***tick box***
Could you please briefly describe your organisation?	
Could you please describe the channel migration project?	
Customers - What was the impact on customers?	
How did your company entice / persuade customers to move?	
How were the moved segments matched to the channels?	
How did you ensure that value was added?	
How did customers view the change in relationship?	
What were the most important metrics tracked to measure customer experience and satisfaction?	
How did the migration project impact on purchasing patterns?	
Other stake holders	
What was the impact on suppliers?	
People impact	
What was the impact on the sales force?	
How did you persuade sales employees to let go?	
What was the impact on customer service staff?	
What were the most important metrics tracked to measure the success of the service centre?	
How was performance of telephone account managers measured?	
Employees - What was the impact on employees?	
How did your company ensure a positive level of employee engagement?	
How was the value shift for account managers managed?	
What were the most important metrics tracked to measure employee engagement?	
Wrap up, conclusions	
What worked well?	
How did you measure the benefits of the channel migration?	
What were the cost implications of the project?	
Looking back, what would you do differently?	

Table 1. Channel Migration - qualitative interview guide

4. Findings

The research looked at various industries across all propositions, the results of the analysis show that there is common ground between all industries for both B2B and B2C propositions. However there are also specific elements for the business customer and consumer (Figure 1).

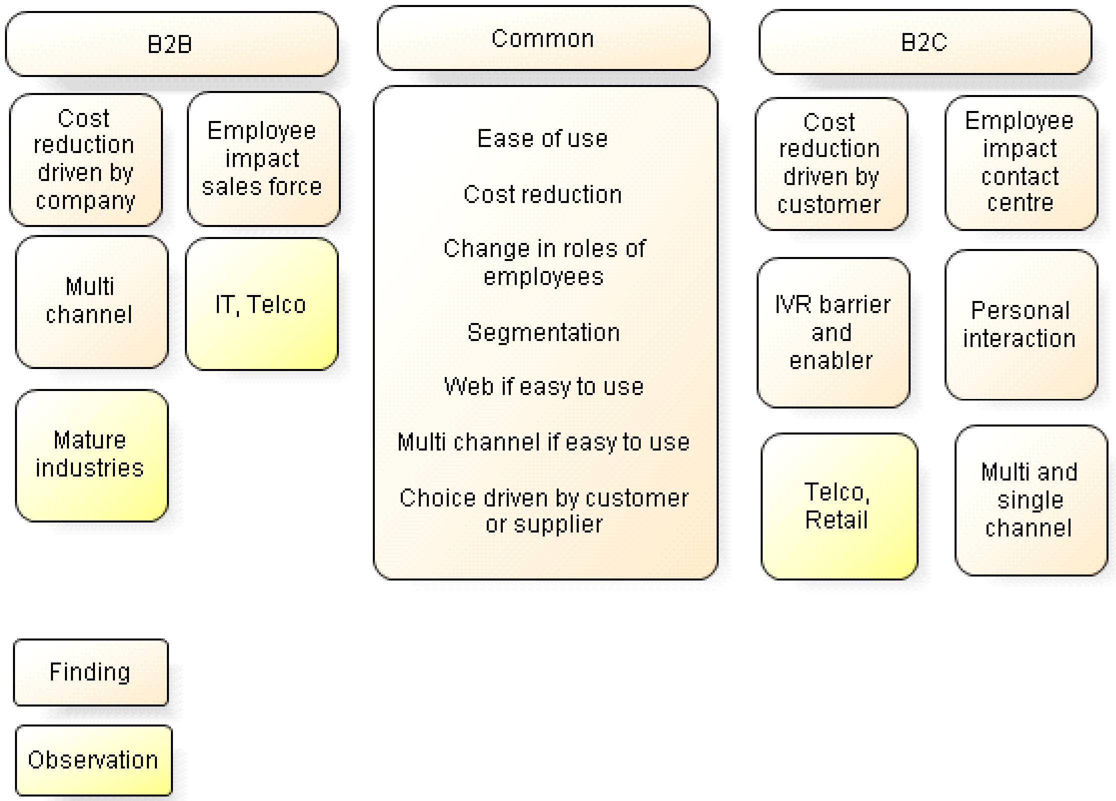

Figure 1. Channel Migration - commonalities and differences B2B v. B2C

4.1. Channel migration projects

4.1.1. Information Technology

The Technology sector has been looking to improve channels throughout the last 20 years. The channels evolved from direct sales force by adding agency and reseller models in the mid 1990s and then progressing towards an integrated multi channel offering. This was mainly driven by the need to become more cost efficient. The portfolio is B2B only and migrations appear to have worked very well as the migration was seen to be in the interest of the customer as well as providing a reduction in cost base. Customers also preferred to use web channels for transactional activities.

4.1.2. Telecommunications

The landscape in the Telecommunications sector has changed dramatically and rapidly since the early 1990s. Many markets have only recently reached saturation and indeed some major markets are still considered to be in the growth sector; therefore, channel optimisation is still not at the centre of attention. All channels are used to reach both consumer and business customers but it appears that they are not fully integrated (With the exception of one company's business proposition where all channels were integrated and the change management programme was run outside the business function).

4.1.3. Retail

The challenges faced by the retail sector were different when the internet appeared as a new sales channel. The web channels were not viewed as a threat, but as an additional channel to generate sales. All channels were integrated and the customer chooses where the goods should be purchased and how the purchase is completed e.g. over the internet or in person in a retail outlet.

4.1.4. Banking

The participating Bank in this research focused on channel optimisation rather than cost reduction. Improving the service provided to the customer was the focal point; the channel migration programme was linked to an employee up-skilling programme.

4.2. Channels

Channels are the range of activities which define the "go to market" strategy. They are not about physical distribution but include all activities of a supplier and its intermediaries to fulfill customer demand (Rangan and Bell 2006). The following trade channels should be taken into consideration when evaluating total costs (Wilson 1996):

- Direct via internet
- Direct via telephone / post
- Independent retailer / dealer (via agent)
- Multiple retailer / catalogues
- Value added reseller
- Business partners
- Consultants

In addition to the channels outlined by Wilson, 1996 the direct sales force was also considered.

Below is an outline which channels are applicable to the respective industries (Table 2).

Channel Strategy				
Industry	Phone based	Web based	Direct sales force	Indirect sales force
Information Technology	x	x	x	x
Telecommunication	x	x	x	x
Retail	x	x	x	
Banking	x	x	x	x

Table 2. Channel Migration - industry channel mix

The web based channels are accepted channels across all industries and propositions. The major difference between B2B and B2C is that business customers are comfortable using the web for transactional activities. A recent study of a mainframe computer producer identified that 4% of the business customers would buy such a capital intensive good over the web (Friedman and Furey 2007). However, one needs to bear in mind that this is not based on actual buying behaviour. In Banking, personal interactions are very important in the high value segments; and tailor-made solutions are provided to the customers.

In B2C, customers still require elements of personal interaction as they believe that talking to an individual enhances their bargaining position. These findings are complemented by a recent study which found that consumers tend to use the web for information gathering but believe they can get better prices through personal negotiation; therefore, the personal element is still important. A recent complementary study identified that consumers are embracing new ways of doing things, only hesitating over concerns about how secure their personal data is and frustrations of having to share the same information time after time. Self service was very well received (69% agreed or strongly agreed with the statement 'technology and automated services are here to improve the efficiency and convenience of our lives'). However, consumers still want some opportunity to deal with people. In most cases with the exception of general insurance, price was not the primary driver for using a particular channel mix (Fujitsu 2007).

Technology companies have turned to the Internet to take advantage of increased richness of interaction and to improve access to information at the same time. Channel partner and technical personnel at the customer location now turn to the Web for key product and technical information. Content is tailored to the audience and secured from the eyes of unintended parties by password protection features. Information is always up to date and consistent. Furthermore, previously harder to reach small resellers and small to medium businesses now have access to the same content as larger players. From an economic standpoint, these benefits justify the investment required to support the initial and ongoing Web site costs (Gattorna 1998).

The costs of interfacing with the customer can be classified as following (Wilson 1996):

- Direct or indirect?
- What services / activities performed?
- Which frontline business system is appropriate?
- Where are activities performed?
- Who performs these activities?
- When are activities performed?

Peppard, 2000 and Knox, 2003 found that integrated channels are of vital importance. A study of CRM and eCommerce issues of financial institutions from the enterprise wide perspective emphasised the importance of the integration of contact channels and front office and back office systems (Peppard 2000). Also, many companies fail to provide consistently high standards of service across different contact channels. Banks contact customers with the activities of selling and providing services and all of these activities are recorded as customer data from the front office system. These data are transferred into the database of back office systems for further integration. This provides a decision support system to the select the best market access on suitability, distribution structure, and integration of contact channels (Knox, Maklan, Payne, Peppard, and Ryals 2003).

One important factor to bear in mind is that new trends and challenges in the eBusiness environment have prompted channel partners to re-evaluate their relationships. Today, more than ever, companies rely on an elaborate web of channel partners, acting as intermediaries between companies and their customers. These indirect sales channels constitute 50-70% of eCommerce activities (Thompson 2002).

4.3. Customers

4.3.1. Impact on customers

The most common finding in both B2B and B2C and across all industries was that if the channels provided are easy to use and based on real customer requirements, the customer experience was seen to be good (Figure 2).

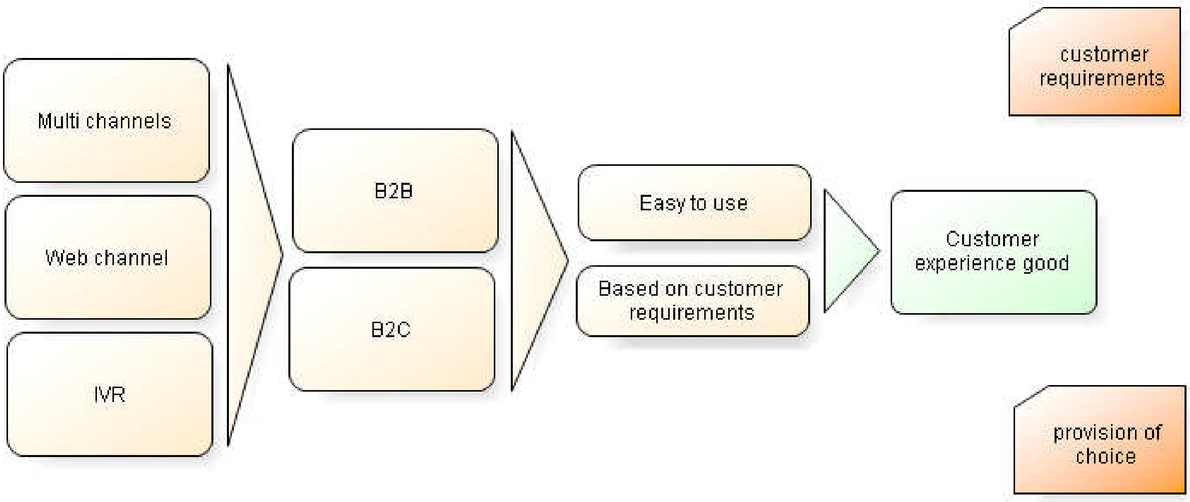

Figure 2. Channel Migration - customer experience

Twenty percent of consumers in the retail sector are free riders; these are consumers who jump from web channel to web channel without displaying any loyalty to the seller, resulting in retailers retaining substantially fewer customers (van Baal and Dach 2005).

This fact paired with bad experience is a major risk to a) not attracting customers and to b) losing existing customers.

Research in the late 1990s found that 28 per cent of consumer' purchase efforts 'failed' when they could not find products they wanted, couldn't finish their transactions or did not complete their purchase to their satisfaction. Twelve thousand North American customers were surveyed in the fourth quarter of 1999, including 10,000 who had made online purchases. The most commonly cited problems were:

- 48 per cent said pages took too long to load;
- 45 per cent couldn't find what they wanted;
- 32 per cent face a product not available or out of stock;
- 26 per cent found the system crashed (Hines 2004).

The findings are supported by the following: Consumers view self service technology as good and positive; they now expect it from retailers, banks and insurances companies. The research found that these sectors are just about keeping up with consumer expectations. Consumers get more and more accustomed to serving themselves; retailers and financial services providers have to work harder to deliver easy to use technology that is joined up across the various channels a customer chooses to use (Fujitsu 2007).

4.3.2. Customer satisfaction

There was no evidence that customer satisfaction was measured for specific channel migration projects.

The companies in the Information Technology measured customer satisfaction for all channels and findings are translated into 'continuous learning'. In the Telecommunications B2C sector there is no positive correlation between customer satisfaction and churn.

4.3.3. Incentives to migrate

B2B customers generally were not incentivised, but viewed the switch to web based channels for transactional activities as an improvement to the internal processes. Whereas consumers were incentivised to move to low cost channels by being offered better prices or by a cheaper, no frills service. In the Retail sector for example, delivery for a web purchase would be charged to the customer, but picking goods up in store would be free of charge as this creates up selling opportunities.

4.4. Segmentation

The main learning from discussion about segmentation was the following:

- Information Technology and Banking / B2B: customers are segmented carefully looking at each account individually and applying a varying channel mix to each customer.
- Retail and Banking / B2C: channels were designed with perceived customer requirements in mind and the choice of channel is driven by the customer.
- Banking / B2C: the segmentation is driven by profitability and relationship.

- Telecommunication / B2C and B2B: the segmentation methods applied varied and were not clearly articulated within the organisations.

Promotion and demotion rules for segmentation bear two risks: a) what happens if customers move in-between segments and the customer experience differs? And b) some customers know more about the products and services, which could have a negative impact on the customer experience e.g. airline customers who are moved from high to low value segments when experiencing a year of limited travel.

There was no correlation between customer and employee experience and the segmentation methods applied.

In some instances it was not clear how segmentation was arrived at.

4.5. Employees

All channel migration projects involved a change of role of the employees with the exception of Retail.

The major significance was that when the employees perceived the new role as a less important or interesting one, the change was viewed negatively. This predominantly happened in the B2B Information Technology sector where the direct sales force was complemented or partly substituted by phone and web channels.

On the other hand, in B2C across all industries the jobs of involved employees were enriched. One example was that telephone representatives did not have to deal with transactions anymore but with the value creation for customers. These changes were viewed positively.

The findings are outlined below (Figure 3):

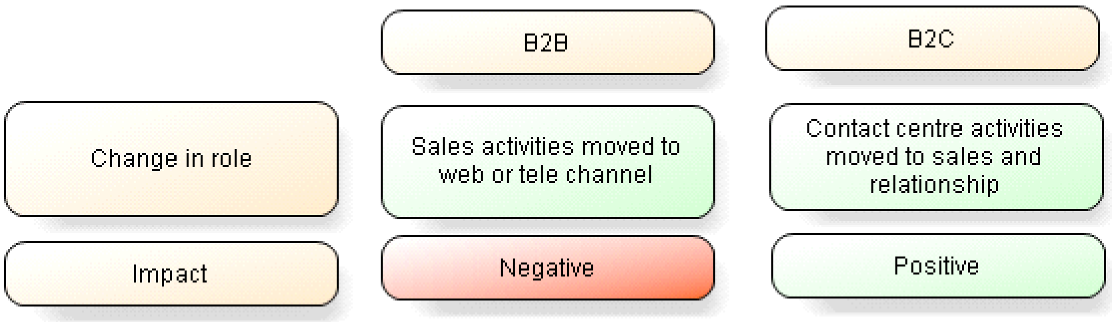

Figure 3. Channel Migration - employee experience

5. Further research

Interviewees might not express all thoughts (Huberman and Miles 2002) in an interview and to ensure that the findings of the current research are valid further more detailed study needs to be undertaken. A further study will include customers and employees and will provide further insights into a specific channel migration project. It will explore whether customer experience correlates with channels which are easy to use for customers and employees.

The area of segmentation needs to be explored further; loyalty and relationship attributes as part of customer segmentation programmes need to be taken into consideration.

The power of complaints needs to be included in the more detailed research, especially considering the internet forums which put a different dimension on the distribution of news.

Research found that the cost pressures in the 1990s resulted in one large American company asking for all sales representatives of its suppliers to be eliminated and to be moved to engineering (Dyer 1996) which suggests that changes to the channels would impact suppliers as well. However this notion was not apparent in the interviews conducted, which suggests that this field needs to be explored in more detail in the next steps of the research.

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