

CHALLENGES FOR SERVICE PROVIDERS UNDER THE TRANSFORMATION MULTI-CHANNELING INTO OMNICHANNELING

MARCIN LIPOWSKI, ILONA BONDOS

Marketing Department, Maria Curie Skłodowska University in Lublin (UMCS)

In terms of changing service delivery in multi-channel systems and the development of new communication/sales channels the key element of customer service becomes the ability to manage and seek synergies in using multiple service points. The aim of the article is to present the challenges must confront service providers in terms of significant changes in the distribution of services. The highest currently identified symptom of these changes is the omnichanneling strategy. The authors pointed out two major interrelated factors shaping challenges for service providers - big data and proliferation channels. The main part of the article is a list of actual challenges for service providers under transformation services distribution strategy towards omnichanneling.

Keywords: multichannel, cross-channel, omni-channel, channel distribution, service

1. Introduction

In terms of changing service delivery in multi-channel systems and the development of new communication/sales channels the key element of customer service becomes the ability to manage and seek synergies in using multiple service points. Regardless of where, when and way of operating the key challenge is to integrate the communication tools with the client in order to facilitate making a customer choice, personalizing offers and identify those same people / needs in different places. One of the key issues in this regard is the ability to manipulate big data and

the ability to adjust the distribution to diverse customer needs in this area. The digital revolution in society and marketing creates tremendous challenges for firms [15]. Leeflan et al. formulate the following four biggest challenges for firms: (1) explosion of data (big data), (2) social media, (3) proliferation of channels, and (4) shifting consumer demographics. It is easy to see that three of these four biggest challenges correspond to digital marketing developments, in our article we are concentrated on two interrelated issues – big data and channels proliferation [*this publication is part of grant National Science Center, Poland no. 2014/13/B/HS4/01612*].

2. Digital era challenges for service providers

2.1. Twofold effect of big data

Undoubtedly the Internet has become one of the most important marketplaces for transactions of goods and services. What is important, the Internet has facilitated information flow for both buyers and sellers. Buyers can find product level information with an ease never before possible. Sellers also benefit from new-found information on consumers' price sensitivity and preferences [10]. If so, it is impossible to disagree with the statement that transparency and efficiency go both ways [14]. It should agree that not overly many firms seem to act comfortably in a world where consumers can speak so freely with each other and businesses have increasingly less control over the information available about them in cyberspace [12]. Consumers not only search for but also create and disseminate information on the Internet. This information, together with other information provided by firms in various social media, is significantly improving information transparency in marketplaces and has important implications for consumer behavior, marketing strategies, and information transparency policies [28]. The ways consumers communicate with each other have been changing dramatically over the last decade, and the same is true for how consumers gather and exchange information about products and how they obtain and consume them. The rise of a plethora of new media has provided consumers with extensive options for actively providing information on services and products [11]. Figuratively, researchers say that “new traffic lanes were being built, not for the convenience of marketers, but for consumers” [8, p. 4].

Taking into account the above, the key to market success is to integrate digital tools and technologies into existing business models and adopting current business models to new and/or disruptive technologies. That integration is the most important strategies to address the challenges of the prevalence of digital tools and technologies threatening existing business models. Because offering customers the ability to search and buy online requires companies to re-specify their business

models [15]. A business which is a well-specified system of interdependent structures, activities, and processes¹ that serves as a firm's organizing logic for value creation (for its customers) and value appropriation (for itself and its partners) [24]. Another description is that it is essence of a firm's strategy [9] or a reflection of the firm's realized strategy [4].

The requirement to make such fundamental changes is obligatory challenge. The same is with another challenge strictly connected with business model changing – big data. The ability to generate and leverage deep customer insights has become crucial [15]. According to Snijders et al. [23] big data is a loosely defined term used to describe data sets so large and complex that they become awkward to work with using standard statistical software. They claim that the availability of such large scale data sets is the effect of rise of digital and mobile communication which has made the world become more connected, networked, and traceable.

On one hand, big data is connected with the risk of overreliance on data and hard facts [15]. Figuratively, researchers say that the amount of information collected by the company it is no longer a rain shower but deluge [25]. Marketers are being challenged by this deluge of data that is well beyond the capacity of their organizations to comprehend and use. Used strategies are not keeping up with the disruptive effects of technology-empowered customers; the proliferation of media, channel, and customer contact points [7]. Consequence of this may be suppression of creativity and breakthrough innovations. All the more so, if we consider the apparent tendency to concentrate on accountability in marketing departments. Without a doubt situation where more fact-based decision making reduces out-of-the-box thinking should be avoided. That kind of unusual thinking is valid for developing new initiatives and innovations. At the same time, in a rapidly changing environment information about changes (technology, competition, customer preferences) becomes crucial for decision making, and the marketing department should be more influential. In order to be influential, marketing departments should be accountable [26].

On the other hand, big data gives a great opportunity to follow the customer during his or her buying process. According to researchers, efficient tracking the customer's journey is a key requirement to optimize advertising campaigns and budgets. In our opinion much more important is fact that using information about customer's habits and preferences makes possible to create the most suitable channels combination. Not a one channel but a few because different type of channel can be selected by the consumer at various stages of the purchasing process. Under multichanneling information about these preferences become crucial for effective and efficient customer service. It is a visible link between two major challenges (mentioned at the beginning)– big data and proliferation of channels. The second one is a kind of a result of the first one. An adequate analysis of the available data allows a gradual recognition of consumer expectations in terms of places / ways of:

(1) searching for information about the offer, (2) purchasing, (3) post-purchase service (4) service resignation. A kind of key change and challenge in shopping behavior is that customers today are no longer marching through those stages in the context of a single channel. Instead they are using all the available channels, entering different ones to satisfy themselves at different stages [20].

2.2. Channel multiplicity

The truth is that when company understands the various paths buyers follow as the move through the purchasing process it has the necessary insight to design profitable channels combination to serve them. For some companies it could be a kind of discovery that customers are exploiting resources in various channels to fulfil their different part of the buying process. Undoubtedly, as regards distribution, important change is the fact that the location has lost its potential of being the primary source of competitive advantage. Using the mobile channel retailers can now enter the consumer's environment through the mobile device, and, because the mobile device stays with the consumer, the retailer can be anywhere, anytime [21]. Fact of channels proliferation should be used to provide information, deliver, and/or facilitate post-purchase satisfaction and retention with respect to the products and services. Bruggen et al. used for that phenomenon the term of channel multiplicity - phenomenon, whereby a new breed of information-empowered customers seeks the fulfillment of needs and wants from multiple independent providers of increasingly fragmented product/service offerings [2]. According to them, channel multiplicity is characterized by at least two specific features. First, customers rely on multiple sources of information, and on multiple sales and support outlets making available the sought after products and related post-purchase services. Product information and its availability are facilitated by third parties other than the manufacturer or traditional channel intermediary. Secondly, customers have an increasing demand for and expectations of trouble-free transitions from information provision to transaction fulfillment to post-purchase service provision, across these multiple channel providers [2]. The combination of these two issues create some challenges for service providers (figure 1).

It appears that in the case of services, the phenomenon of the multiplicity of channels may result in greater challenges for their (services) suppliers. It happens due to the specific characteristics of services (compared to the material goods. It is true, that the service recipient (consumer) is not so much involved in the selection of a service as such, but rather faced with the task of selecting the most suitable provider of such service [17]. In our opinion, however, it is not a complete statement because under multichanneling environment the key task for service buyer is selecting most suitable not provider but service channel. That is why the challenges of channel multiplicity appear to be more difficult for service providers.

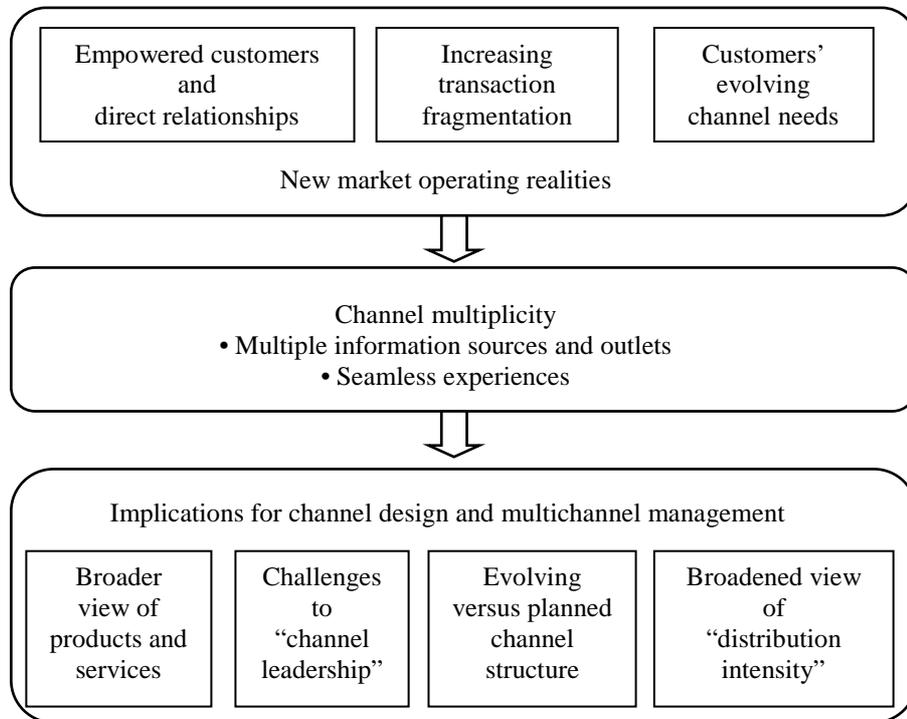


Figure 1. Conceptual overview of channel multiplicity
Source: [2, p. 332]

Phenomenon of channel multiplicity implies the need for a new design and management of marketing channels, these channels under the new conditions take over the functions of communication channels with consumers. It becomes necessary to redefine the concept of a marketing channel - in the light of contemporary literature channel is defined as a customer contact point, a medium through which the firm and the customer interact [13; 1]. According to a broader view of the channel it is a series of value-adding functions and/or services that combine together to create enhanced customer experiences [multiplicity]. That view demands that all digital conduits could potentially represent a channel of distribution, including but not limited to mobile phones, kiosks, and any user generated phenomena (blogging sites, social networks, video sites) as well as all other branded formats such as retailers, brand fans, user groups, and catalogs. At the same time is visible an increasing fragmentation of the transaction and reorganization of key channel functions over the purchase lifecycle. In effect, the nature of distribution channel has expanded from being focused on the service only to the provision of valuable support services and customer retention activities [2].

Another challenge arising from the multiplicity of channels available to consumers is the need to reconfigure other elements of marketing - mix. As is well known set of marketing mix is wider in the case of services (7P instead of 4P), so the risk of mismatches of the service marketing strategy is higher. More components must be adapted to the customer's expectations, otherwise a service failure occurs [22]. The actions taken by service providers to respond to service failures could drive positive customer behavior such as re-patronage intention and WOM, but could also lead to customer retaliatory behavior such as patronage reduction and NWOM [5]. Under multichanneling conditions while pressures on integration between used channels failure of (in the broadest sense) customer service can easily become. Another issue that needs service provider's attention is segmentation, seemingly mastered to perfection. Undoubtedly segmentation is the starting point for your marketing strategy. It may, however, prove that the segmentation of customers based on their preferred distribution channels is inefficient. The reason is that a single customer has diverse preferences in terms of the best channel depending on the stage of the purchasing process. In other words, classic approach to segmentation based on purchase channel becomes meaningless, since each user can have the purchasing path dependent on a number of factors (including the characteristics of the purchaser, the circumstances of the purchase, the attractiveness of the offer marketing elements in each channel).

3. Omnichanneling – because multichanneling no longer enough

It is worth noticing that in the scientific literature there is defining three different categories of retailing through multiple channel – multichannel, cross-channel and omnichannel. However, the first two terms are often used alternately and can mean either that channel of distribution are integrated, or interact each other or channels that are not integrated and/or do not interact [1]. And the same way academics specify cross-channel as interaction of channels that are integrated or not integrated. Although these two concepts are not the same it is difficult to determine the pattern of both concepts. Sometimes the distinction is made between these three concepts through the prism of the degree of integration channel. The study confirm influence of degree of integration on sales. The development of channel integration during a time has a positive effect on sales growth [3]. Integration means to which extend „a firm coordinates the objectives, design and development of its channels to create synergies for the firm and offer particular benefits to its customer” [2, p. 200]. Multichannel means no integration, partial integration cross-channel, omnichannel full integration touchpoints and communication channels [1].

Typically multichannel is define as „*the design, development and evaluation of channels to enhance customer value through effective customer acquisition, retention and development*” [19, p. 96]. In this definition the need to create customer value by managing multiple distribution channels is highlighted. The main challenges for multichannel customer management are as follows [2, p. 108-109]:

- data integration (evidence cross selling benefits),
- understanding customer behavior (factors influencing channel choice),
- channel evaluation (channel cannibalization),
- allocation resources across channel (allocate marketing across channel),
- coordinating channel strategies (management research shopping).

In contrast to the multi-channel omnichannel is defined as “*the synergetic management of the numerous available channels and customer touchpoints, in such a way that the customer experience across channels and the performance over channels is optimized*” [27, p. 176]. In the above mentioned definition the term of the consumer experience is placed and should be optimized by managing multiple channels. A characteristic feature of omnichanneling is that full integration of channels which may be called (trigger) at any time by the consumer and at the same time is controlled by the vendor [1]. Summary of the main differences between multichannel and omnichannel are shown in Table 1.

Table 1. Multi-channel versus omni-channel management

	Multi-channel management	Omni-channel management
Channel focus	Interactive channels only	Interactive and mass-communications channels
Channel scope	Retail channels: store, online website, and direct marketing	Retail channels: store, online website, and direct marketing, mobile channels, social media Customer Touchpoints – mass communications channels
Separation of channel Brand versus channel customer relationship focus	Separate channels with no overlap Customer – retail channel focus	Integrated channels providing seamless retail experiences Customer – retail channel – Brand focus
Channel management, objectives	Per channel	Cross-channel objectives – customer experience, total sales

Source: [27, p. 176]

Some research confirmed that the modern self-service distribution channels (eg. on-line or mobile) when there is no direct interaction “face to face” can hinder the obtain feedback from the consumer [6]. The choice of the distribution channel made by the consumer is linked to the level of communication richness and by the

degree of fit to the task [18]. Higher richness of media communication is not always expected by the recipient, as they usually entails higher costs of using the services of a particular channel [16]. Certain communication channels are used alternatively or primarily depending on the situation.

4. Conclusion

Omni-channel services management sales requires a specific approach to the exchange of information between alternative channels and use them at every stage of customer service. That may raise certain problems and conflicts which challenge for service providers. Among the challenges in this regard must be pointed:

1. Identification of each client in each of the distribution/communication channels (today some customers are unwilling to give information on personal data, eg. by telephone);
2. The integration of data from different channels and making them available in any other channel in real time;
3. The integration of data from different forms of communication – face to face, by phone, chat, social network, internet – additional problem of communication in different languages;
4. The risk of errors - customer dissatisfaction due to lack of identification in any channel the current stage of the purchase process;
5. Cooperation with intermediaries - the division the channels operating costs and benefits of customer service;
6. Unification (across channels) and/or price differentiation (for different customers) and the need to justify the proceedings of the service provider to the consumer;
7. Fluctuating load selected distribution channels (physical and telephone), which can cause poor standard of service quality;
8. The human factor - both the suppliers and recipient, it causes the convenience of the supplier (and inconvenience for buyers) or a recipient's habit (low efficiency of the supplier);
9. The high costs of implementation and support of sales services based on the omnichanneling strategy - especially for smaller companies.

Among the conditions listed above, the most important seem to be those associated with obtaining and exchanging information and ensuring the efficiency of distribution systems. This can lead to certain restrictions on the provision of services to the consumer in some channels, particularly in the stage after purchasing service.

REFERENCES

- [1] Beck N., Rygl D. (2015) *Categorization of multiple channel retailing in Multi-, Cross- and Omni-Channel Retailing for retailers and retailing*, Journal of Retailing and Consumer Services, 27, 170-178.
- [2] Bruggen van G.H., Antia K.D., Jap S.D, Reinartz W.J., Pallas F. (2010) *Managing Marketing Channel Multiplicity*, Journal of Service Research, 13, 331-340.
- [3] Cao L., Li. L. (2015) *The impact of cross-channel integration on retailers sales growth*, Journal of Retailing, 91, 198-216.
- [4] Casadesus-Masanell R., Ricart J.E. (2010) *From Strategy to Business Models and on-to Tactics*, Long Range Planning, 43, 195–221.
- [5] Casidy R., Shin H. (2015) *The effects of harm directions and service recovery strategies on customer forgiveness and negative word-of-mouth intentions*, Journal of Retailing and Consumer Services, 27, 103-112.
- [6] Cassab H., MacLachan D.L. (2009) *A consumer-based view of multi-channel service*, Journal of Service Management, 20, 52-75.
- [7] Day G.S. (2011) *Closing the Marketing Capabilities Gap*, Journal of Marketing, 75, 183-195.
- [8] Deighton J.A., Kornfeld A. (2009) *Interactivity's Unanticipated Consequences for Marketers and Marketing*, Journal of Interactive Marketing, 23 (1), 2-12.
- [9] Gambardella A., McGahan A.M. (2010) *Business-Model Innovation: General Purpose Technologies and their Implications for Industry Structure*, Long Range Planning, 43, 262-271.
- [10] Garbarino E., Maxwell S. (2010) *Consumer response to norm-breaking pricing events in e-commerce*, Journal of Business Research, 63, 1066-1072.
- [11] Hennig-Thurau T., Malthous E.C., Friege Ch., Gensler S., Lobschat L., Rangaswamy A., Skiera B. (2010) *The Impact of New Media on Customer Relationships*, Journal of Service Research, 13, 311-330.
- [12] Kaplan A.M., Haenlein M. (2010) *Users of the world, unite! The challenges and opportunities of social media*, Business Horizons, 53, 59-68.
- [13] Konus U., Neslin S.A., Verhoef P.C. (2014) *The effect of search channel elimination on purchase incidence, order size and channel choice*, International Journal of Research in Marketing, 31, 49-64.
- [14] Kung M., Monroe K.B., Cox J.L. (2002) *Pricing on the Internet*, Journal of Product & Brand Management, 11, 274 – 288.
- [15] Leeflang P.S.H., Verhoef P.C., Dahlström P., Freundt T. (2014) *Challenges and solutions for marketing in a digital era*, European Management Journal, 32, 1-12.
- [16] Lipowski M. (2015) *Czynniki warunkujące wykorzystanie usług finansowych w świetle teorii selekcji mediów*, Handel Wewnętrzny, 3, 131-140.

- [17] Machura P., Pituła G. (2015) *Social media in marketing communication in the service sector*, Information Systems in Management, 4, 183-192.
- [18] Maity M., Dass M. (2014) *Consumer decision-making across modern and traditional channels: e-commerce, m-commerce, in-store*, Decision Support System, 61, 34-46.
- [19] Neslin S.A., Grewal. D. Leghorn R., Shankar V., Teerling M.L., Thomas J.S., Verhoef P.C. (2006), *Challenges and opportunities in multichannel customer management*, Journal of Service Research, 9, 95-112.
- [20] Nunes P.F., Cespedes F.V. (2003) *The Customer Has Escaped*, Harvard Business Review, 81, 96-105.
- [21] Shankar V., Venkatesh A., Hofacker Ch., Naik P. (2010) *Mobile Marketing in the Retailing Environment: Current Insights and Future Research Avenues*, Journal of Interactive Marketing, 24, 111-120.
- [22] Sivakumar K., Li M., Dong B. (2014) *Service quality: the impact of frequency, timing, proximity, and sequence of failures and delights*, Journal of Marketing, 78, 41-58.
- [23] Snijders Ch., Matzat U., Reips U.D. (2012) *Big Data: Big Gaps of Knowledge in the Field of Internet Science*, "International Journal of Internet Science, 7, 1-5.
- [24] Sorescu A., Frambach R. T., Singh J., Rangaswamy A., Bridges C. (2011) *Innovations in retail business models*, Journal of Retailing, 87, 3-16.
- [25] *The data deluge* (2010), The Economist, <http://www.economist.com/node/15579717> [30.10.2015].
- [26] Verhoef P. C., Leeflang P. S. H. (2009) *Understanding marketing department's influence within the firm*, Journal of Marketing, 73, 14-37.
- [27] Verhoef P.C., Kannan P.K., Inman J.J. (2015) *From multi-channel retailing to omni-channel retailing. Introduce to the special issue on multi-channel retailing*, Journal of retailing, 91, 174-181.
- [28] Zhang X., Jiang B. (2014) *Increasing Price Transparency: Implications of Consumer Price Posting for Consumers' Haggling Behavior and a Seller's Pricing Strategies*, Journal of Interactive Marketing, 1, 68-85.