Winning the Multi-Channel Challenge
Customers, Channels and Marketing Management
It was clear that the arrival of the internet as the new medium for interaction with customers would disrupt multi-channel configurations. It was less clear what form this disruption would take, how long it would last or what new multi-channel configurations would emerge.

As it turned out, the internet’s impact was less dramatic in the short-term than expected. In recent years, however, the pace of change has accelerated. In travel, for example, the organization of trips and booking behavior have changed dramatically since 2000 (see figure 1), and revenues generated online have been growing strongly (see figure 2).

A recent Booz Allen Hamilton survey covering five industries in seven European countries showed that adaptation is, however, still far from complete in most industries, and in some industries, still in its infancy.
The study showed that up to 40% of customers are not being served effectively, because companies cannot target specific customer needs with their existing channel set-ups. This suggests a substantial portion of marketing and sales budgets is being wasted.

The usual adaptation pattern has been the extension of mail order processes to the internet initially, followed by the establishment of e-commerce as a separately managed, independent channel, followed by movement towards truly integrated multi-channel management.

Although this third stage is still far from complete, enough trials and errors have been made to reach provisional conclusions about how the process of reconfiguring the customer interaction channels, including the internet, call centers, direct mail, retail stores, wholesale and partners, is best managed, and what industry-specific factors need to be taken into account.
Multi-Channel Success Factors

Our analysis shows that three basic principles are common to all successful multi-channel management practices across industries:

1. **Align channels to customer segments**
   Starting with a precise customer segmentation (“micro segmentation”), sales and service preferences (price, convenience, etc.) are established for each segment, and channel set-up is adapted to reflect them.

2. **Intertwine products and channels**
   Offering “bundles” comprising varying blends of product, channel, brand and service attributes, are assembled, the channel’s role in the sales process (e.g. is it just for distribution or does it play a more dynamic role?) is determined and specific bundles are assigned to specific customer segments.

3. **Use IT to drive efficiency**
   A set of IT front-ends are customized for each segment, but a cross-channel customer view is maintained with a unified back-end spanning all channels. This allows segments and bundles to be mixed and matched so that even small segments can be addressed efficiently.

These success factors are more easily described than realized, however. The whole organization must contribute to achieving them. The overall challenge can be seen as a pyramid of challenges, from aligning channel strategy with company strategy, down to embedding the channel strategy and its associated propositions in the basic processes of the organization.
Strategic Multi-Channel Management

The channels a company uses to interact with its customers, and how it uses them, affect revenues, revenue growth and costs; help determine agility and efficiency; and contribute significantly to the company’s reputation in its marketplace. Channel configuration gives shape to a company, determines its sensitivity to its changing environment and characterizes the ways in which it engages with its customers.

In short, multi-channel management is of vital strategic importance. That is why successful companies analyze multi-channel developments very carefully, and see them as key considerations in the strategy formulation process (see figure 3). Corporate strategy, defined as the way to reach the firm’s long-term goals, direction and business model, is the foundation of channel configuration. Analysis of the multi-channel status quo and the trends in the industry is an integral part of the analysis and synthesis phases of the strategy formulation process.
Figure 3: Strategic Multi-Channel Framework
**Channel Strategy**

Once the overall strategy has been agreed, a ‘channel strategy’ and channel propositions can be derived from it. Put simply, a channel strategy emerges from the answers to three questions: Which customers should we target? What products do they want? What channels are best suited for which products and which customers?

**Channel Set-Up**

Agreement on a channel strategy will bear new questions. Should the channels be operated in-house, or through an independent subsidiary? If product and service supplied by other companies (perhaps in other industries) are to be bundled, how will decisions be made? How are investment and operating costs to be distributed among participating companies? Who owns the customer data and should their use be restricted?

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**Figure 4: Overview of Channel Usage**

<table>
<thead>
<tr>
<th>Industry</th>
<th>Sales Channels</th>
<th>Service Channels</th>
</tr>
</thead>
<tbody>
<tr>
<td>Automotive</td>
<td>1)</td>
<td>1)</td>
</tr>
<tr>
<td>Travel</td>
<td>2)</td>
<td>2)</td>
</tr>
<tr>
<td>Insurance</td>
<td>3)</td>
<td>3)</td>
</tr>
<tr>
<td>Banking</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Telco</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Legend**
- Call Center
- Internet
- Captive Shops
- Third-Party (Retailer) Shops

Source: Booz Allen Analysis
1) Very low sales amounts for new vehicles; however increasing internet-use for search and configuration
2) Mainly for younger vehicles
3) Mainly for older vehicles
Active multi-channel management, which successfully balances the twin needs for efficiency and effectiveness, requires well defined commercial and technical capabilities.

### Commercial Capabilities

There are two key requirements for successful multi-channel management: an intimate knowledge of the customer and the ability to use that knowledge to adapt different channels to the particular needs of different customers and segments (see figure 5). Customer needs must be served seamlessly across all channels. All current and recent customer transactions have to be accessible to all channels and customer value need to be known in all channels. This is a major challenge for companies, because the components of channel landscapes will often have evolved independently. Many companies still manage their web-based channels separately from conventional channels in so-called “eCommerce departments”.

Companies must also be able to differentiate the attributes of the offering (products, services, prices and content) for the different channels, because channels vary in their effectiveness and efficiency. Figure 6 shows the efficiency and effectiveness of different sales and distribution channels in the travel industry. The ideal sales channel has high throughput at the lowest distribution cost per unit. Some low cost carriers already book 60% of their revenues directly online. But the optimal channel mix will vary from industry to industry, company to company, and customer segment to customer segment. To “manage” channels and actively encourage customers to switch to their most effective and efficient channel requires full transparency of each channel’s performance.
1) Customers may have mentioned more than one channel
Source: Forrester Research, Handelsblatt, Booz Allen Analysis

### Figure 5: Current Channel Usage and Future Trend – Banking Example

<table>
<thead>
<tr>
<th>Channel</th>
<th>Usage(^1)</th>
<th>Trend</th>
<th>Usage Behavior</th>
</tr>
</thead>
</table>
| Branch/Personal Contact  | 70-75%      | ↓     | - About 80% of customers prefer branch offices and personally delivered advice and information  
- But customers are generally dissatisfied with the quality of advisory services |
| Telephone/Service Center | 5-7%        | ↓     | - The telephone is the normal channel for urgent transactions, e.g., loss of credit card  
- 53% of customers dislike automated telephone services |
| Online-Distribution      | 20-25%      | ↑     | - Online users are “early adopters” (younger, higher income); 10% do almost all their banking online  
- Online banking for information and easy transactions (transactions 50%, change of address 14%)  
- Increasing e-mail usage due to secure e-mails |
| Mobile Banking           | 3-5%        | ↑     | - Supplementary channel  
- Personal advisory services outside working hours  
- Several banks have set up their own mobile sales forces to support their branch offices |

1) Customers may have mentioned more than one channel
Source: Forrester Research, Handelsblatt, Booz Allen Analysis

### Figure 6: Channel Differentiation – Travel Industry Example

<table>
<thead>
<tr>
<th>Channel</th>
<th>Efficiency</th>
<th>Effectiveness</th>
<th>Increase of Throughput?</th>
<th>Cost Reduction?</th>
<th>Ideal State</th>
</tr>
</thead>
<tbody>
<tr>
<td>Direct</td>
<td>High</td>
<td>Low</td>
<td></td>
<td></td>
<td>OLTAs (^1)</td>
</tr>
<tr>
<td>Destination Agencies</td>
<td>Low</td>
<td>High</td>
<td></td>
<td></td>
<td>3rd Party Shops</td>
</tr>
<tr>
<td>Call Centers</td>
<td>Low</td>
<td>Low</td>
<td></td>
<td></td>
<td>Own Shops</td>
</tr>
<tr>
<td>Own Shops</td>
<td>High</td>
<td>High</td>
<td></td>
<td></td>
<td></td>
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<td>High</td>
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<td>High</td>
<td>High</td>
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</tr>
</tbody>
</table>

1) Online Travel Agencies
Armed with the necessary management information and ‘steering logic’ and business-driven configuration abilities can be developed, to enable the differentiation of service offerings and to drive channel conversion.

**Technical Capabilities**

A multi-channel capable IT architecture is essential if efficient offerings are to be delivered to customers across all channels. A basic multi-channel architecture comprising a front-end, a middle layer and a back-end is shown in figure 7. The engine-room of a multi-channel IT architecture is a channel independent service-oriented and scalable transaction layer that enables the functional integration of different front-end and back-end systems. In addition to its integration capability the middleware-layer must support channel management and buffering/caching mechanisms to ensure overall system performance given the poor look-to-book ratios of web-based business. A full set of front-end technologies must be supported to serve legacy sales channels and web-based platforms. The front-end should support open industry standards (XML, web-services, etc.), and be flexibly re-configurable, based on user-serviceable

![Figure 7: Channel Architecture – Banking Example](image-url)
parameters. The back-end must connect, not only to internal legacy systems, but also increasingly to external systems to access 3rd party services, such as external bed-inventories in the travel industry.

**Organization and Processes**
The integrated, multi-channel philosophy must permeate the organization and its sales processes, to keep pace with the constantly evolving environment. The whole organization must be intimate with each channel and each customer segment, while maintaining a coherent cross-channel approach with processes that integrate all available channels. For example, generated leads must be subsequently pursued by the most appropriate channel, irrespective of where they have originated (mail, website, call center, etc.). Because companies seldom own all the channels they serve this usually involves processes that cross corporate boundaries. For example, a car manufacturer’s own channels (website, call center) should be closely linked to those of the dealers who actually sell its vehicles, because every lead generated must be steered to a dealer for proper follow-up (e.g. arranging a test drive).
Cross-Industry Lessons and Partnerships

The study found a number of examples where industries could learn from each other’s experience.

Elements of leading multi-channel capabilities have not fully penetrated all industries equally. While banks for example sell a great deal of product on the net, they do not yet offer detailed product configuration options. They are advised to analyze how successful automotive players use the internet to inform their customers about options and features. Although car manufacturers sell very few new cars online they offer great options and product/car configuration flexibility via the internet to address the increasing number of customers who start a transaction there before entering a retail show room.

Travel companies can learn from the telecommunication industry’s sophisticated approach to customer micro segmentation (e.g. Heya, a Polish mobile brand specifically targeted towards young people), and the clarity of its channel differentiation, but telecommunication companies can learn from the travel sector’s use of bespoke processes for premium customers (e.g. HonCircle from Lufthansa).

In most industries the number of customers who can be addressed through the standard channel offering is declining. Our study suggests that a fast and cost efficient way to develop the multi-channel offering further is through partnerships. Cross-industry partnerships in particular offer possibilities to extend the channel offering without encountering competition.
Tchibo, a former German coffee brand and now one of the country’s largest retailers, shares its sales structures, from retail outlets to internet portals and call centers, with various partners, to sell telco services, loans and travel. Its partners, such as the Royal Bank of Scotland, benefit from much reduced market entry barriers, while Tchibo earns commissions on such sales and achieves a more stable customer base.

Other examples of such successful channel sharing include Lufthansa Miles & More, Douglas in cooperation with German savings bank outlets, and the use of Tesco’s retail outlets to sell banking products and pharmaceuticals.
Conclusion

Customer segmentation within a multi-channel strategy is a vital first step towards improving the way customers are addressed. The ultimate goal is to offer bundles of product, channel, brand and service carefully tailored for specific segments and effectively supported by IT.

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Multi-Channel Service Offering
Booz Allen Hamilton as a Competent Partner

**Industry Expertise**
- Deep industry know-how via industry-specific teams
- Leading know-how in industry-related channel strategies
- International benchmarks across industries

**Multi-Channel Team**
- Dedicated cross-industry/cross-functional expert team
- International experience
- Broad engagement experience
- Variety of studies and surveys
- Proven methodologies and tools
- Knowledge Online

**CRM Expertise**
- Comprehensive experience in CRM related topics esp. Sales, Marketing, Pricing and CRM applications
- Development of concepts for channel acquisitions, channel marketing, field sales and POS performance
- Design of partnering strategies

**Functional Expertise**
- Strategy development and implementation
- Process efficiency improvement and organizational design
- Measurement & reward system design, channel metrics and controlling
- IT team with broad CRM and channel know-how (industry-specific)