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I. Bondos
Maria Curie-Sklodowska University,
Poland

E-CHANNEL MIGRATION STRATEGY – A DOUBLE-EDGED SWORD?

As companies implement multichannel strategies and attempt to manage consumers' multichannel behavior, the migration of customers from traditional to new and alternative channels seems ubiquitous. The literature distinguishes two main types of customer migration strategies – forced and voluntary customer E-channel migration strategies. The purpose of this analysis will be an indication of the potential consequences of a customer migration strategy to the online channel – such a solution is increasingly applied by service providers. However, it should be aware of the consequences of such a solution – these consequences are favorable as well as unfavorable to the strategy initiator. To achieve this objective achievements of scientific literature has been analyzed.

Key words: channel migration, switching channel, online channel, customer retention, cost perception, multichanneling.

І. Бондос
Університет Марії Кюрі-Склодовської,
Польща

Е-КАНАЛ СТРАТЕГІЯ МІГРАЦІЇ – ДВОСІЧНИЙ МЕЧ?

Оскільки компанії реалізовують багатоканальні стратегії і намагаються управляти багатоканальною поведінкою споживачів, міграція споживача від традиційних до нових і альтернативних каналів здається всюдисущою. У літературі розрізняють два основні типи стратегій міграції споживачів – вимушена та добровільна міграційна стратегії споживача Е-каналу. Метою цього аналізу є виявлення потенційних наслідків міграції клієнтів до онлайн-каналу – таке рішення все частіше застосовується тими, хто надає послуг. Проте необхідно усвідомлювати наслідки такого рішення, що є як сприятливими, так і несприятливими для стратегії ініціатора. Для досягнення цієї мети проаналізовано досягнення наукової літератури.

Ключові слова: канал міграції, перемикання каналів, онлайн-канал, утримання клієнтів, сприйняття вартості, багатоканальність.

Statement of the problem

As companies implement multichannel strategies and attempt to manage consumers' multichannel behavior, the migration of customers from traditional to new and alternative channels seems ubiquitous [18]. As researchers note, most recent firm efforts attempt to steer customers to the online or e-channel; not only for purchases but also for the information search and after-sales phases of the shopping process [20]. These moves are all intended to increase the effectiveness of channel operations, yet moving customers to alternative channels also may create undesired effects on customers. Channel migration strategies can be voluntary – customers can choose among multiple, fully available channels [2]. However, when customers' channel preferences do not match channel management policies, companies face increased costs and redundant or ineffective channels [3]. And even greater risk is associated with the strategy of forced e-channel migration. Channel migration affects firm profit through its influence on cost and revenue. It has been claimed that the Internet is more cost efficient than traditional channels. Although this might suggest that companies should migrate customers to the Web, the efficacy of this strategy depends on how migration affects overall demand [1].

Analysis of recent research and publications

As researchers note, too often, companies multiply their channels only to face a host of unintended consequences that actually raise costs or cut revenues [13]. According to Neslin et. al [2006], one of the most dramatic trends in the shopping environment has been the proliferation of channels through which customers can interact with firms: the Internet, kiosks, ATMs, call centers, direct marketing, home shopping networks, and catalogs, as well as bricks-and-mortar stores, are now commonplace means by which consumers shop. As a result of proliferating channels, sales and marketing executives in a wide range of industries have lost control of their customers, with damaging financial consequences. This problems is crucial because of inability to return to the past by reducing the number of channels. The main reason are changes in consumer behaviour – customers are increasingly demanding and they have grown accustomed a broad range of options and might well defect if companies discontinued them [13]. Using offline and online service channels concurrently, service providers can adapt to customers' needs and shopping patterns while also increasing coverage and sales [5]. At the same time this channel proliferation has created a challenge for firms to manage this environment effectively [14]. Undoubtedly, the disadvantages of multichannel strategies are channel conflict and decreasing returns as more channels are utilized. In this era of shifts in distribution structures, firms need to develop effective multichannel strategies [19]. Konus et. al [6] noted that at one extreme, consumers might behave homogeneously, using all channels for the same reasons – in this case a multichannel strategy is essentially mass marketing. At the other extreme, specific segments might align with specific channels – in this case, marketers must understand the characteristics or covariates of these segments to determine how to design and target their channels. Neslin and Shankar [15] defined the 13 challenges of multi-channel management, among them was the issue of effectiveness and efficiency. These researchers have asked whether firms can take advantage of the

multichannel environment to create more effective marketing programs. According to these authors there three possible ways this can be accomplished:

– economies of scale – having more channels means more marketing opportunities, and the marginal cost of marketing (e.g., more catalogs, more emails, more TV advertising exposures) should decrease as a function of marketing effort,

– economies of scope – having more channels may mean that marketing costs can be shared across channels, making it more economical for the firm to market its products. A company with a single channel may need a marketing department of 50 marketing experts; a two-channel company may need a marketing department of 70, because many of the same skills of these marketing professionals can be shared by the channels,

– integrated multichannel marketing can improve marketing efforts is through coordinated marketing programs – these programs can take the form of traditional integrated marketing communications tactics such as the consistent use of the same logo or value proposition in all the channels, another promising area is cross-channel promotions.

Lee and Kim [8, p. 82] emphasized that multichannel retailers can achieve reinforcement by providing repetitive yet consistent messages about price, products, and customer services across channels and will create a synergetic effect by offering extended services through channels. Zhang et al. [15, p. 169] pointed out some sources of the improved financial performance for multichannel retailers: low-cost access to new markets, increased customer satisfaction and loyalty and creation of a strategic advantage. As Lipowski [11, p. 467] noted multi-channel sales (share offer with new and innovative ways) does not seem to eliminate the existing traditional forms of selling offline. Multi-channel sales will rather complement it in search of customer benefits while creating new patterns of purchasing behavior and providing benefits for the company.

The formulation of objectives

The purpose of this analysis will be an indication of the potential consequences of a customer migration strategy to the online channel - such a solution is increasingly applied by service providers. However, it should be aware of the consequences of such a solution – these consequences are favorable as well as unfavorable to the strategy initiator. To achieve this objective achievements of scientific literature has been analyzed.

Presentation of main materials

From the point of view the effects of multichannel sales an important issue is the perceived value to the consumer. In the light of the literature perceived value is defined as a multidimensional construct comprising what the consumer needs to spend (time, effort, money) and what he/she receives in return (quality of service / product / service) [3, p. 91]. Thus, on the one hand eliminating channel customer contact with the company reduces the part that receives the client (take aspects) – customer does not receive the product / service in the form he/she expects, on the other hand it increases the part that client gives / devotes (give aspects) – customer must take the time to get to the offline store or break the fear of signing up and making payment in the online store [11].

The issues outlined above must be taken into account during the implementation of customer migration strategies to the online channel. The literature distinguishes two main types of these strategies – forced and voluntary customer E-channel migration strategies [20, p. 258]. The first one refers to the process of moving customers from one channel to the E-channel through coercive actions that enhance the efficiency of the firm's channel operations [17]. In their assumptions that migration strategy should lead to channel switching, unless the customer moves to another service provider. As Myers et al. [13] note, customers may always be right, but allowing them to follow their own preferences often increases a company's costs while leaving untapped opportunities to boost revenues. However, researchers indicate the number of negative consequences of forcing consumers to change the channel on the online channel. One of these is frustration and emotional discomfort among customers. Is said to be a “customer reactance”, which may create customer dissatisfaction and subsequently disloyalty [20, p. 258]. As a result, an inevitable consequence is negative word of mouth and abandoning provider to another seller.

The second type of migration - voluntary customer E-channel migration – is implemented in hopes to counteract the negative consequences of a forced strategy. In this case, the consumer is free to choose the channel of contact with the service provider – consumer may or may not have to use the newly launched online channel. In addition to these identified two types of e-channel migration strategies, strategies based on incentives are identified. According to Trampe et al. [20, p. 258], those incentive-based strategies can be regarded as reinforced strategies and they are likely to have a different impact on customers than forced or voluntary E-channel migration strategies. Incentives can be positive (rewards – (e.g., customers receive a financial benefit when they migrate to the channel preferred by the firm), or negative (punishments - e.g., customers have to pay a high(er) fee when they continue the use of the incumbent channel). As Myers et al. [13] claim, these incentives frequently combine a “carrot” and a “stick.” – the carrot is something (typically, discounts or improved service) that customers value highly and receive only when they use the preferred channel; the stick might be fees or reduced service, both of which work best when they are reasonably opaque and switching costs are embedded in the product or service. Check-in at the airport is a good example – airlines introducing self-service check-in, installed large numbers of kiosks (carrot of extremely short wait times for automated service); but a stick is also employed: longer wait times for service at counters (as a result of reducing personnel levels there).

In order to correctly assess the results of various options of migration strategy the impact of that changes on the customer behavior and attitude towards service provider / brand must be taken into account. An extremely important issue are, perceived by migrated consumers, costs of using the indicated channel (usually channel online). And it is not just about the service price in the new channel, but equally important, widely understood, non-price costs [9]. Researchers are unanimous about the fact that the concept of the perceived costs is hidden a lot of different ingredients. Verhoef et al. [21] have identified cost and benefit shopping attributes – on the side of consumer benefits are: search convenience, information availability, shopping enjoyment, purchase convenience, service quality, price and promotion, assortment, clientele. Whereas, on the side of consumer costs is risk. Konus et al [6, p. 50] completed the above cost list two another costs: emotion and adjustment cost. Adjustment costs induce thinking and learning in customers to incur as they adapt their behavior and is, on par with the emotional cost, a vital cost in relation to the strategy of forced migration to e-channel. Ansari et al. [1, p. 70–71] in their research on the effects of customer migration indicate, among others, on:

- a negative long-term association between Internet usage and sales,
- limited loyalty effects for purchases made on the Internet.

They also noted that migration to the Internet lowers switching costs, making it easier to compare products across firms. Buyers' perceived switching costs as all perceived, anticipated and/or experienced costs of switching a relationship from one seller to another. Perceived switching costs are therefore a result of subjective evaluation of experiences and/or observation of experiences of others in relationships; that is, buyers may perceive switching costs of a relationship without having switched from a seller. Switching costs encompass different types of costs, in particular financial, procedural, and relational costs as well as combinations of these types [16, p. 187]. Switching costs are a main reason why buyers stay with or switch a seller. This category of costs is not directly observed and can come from a variety of sources, including product adoption costs, shopping/search costs, and psychological sources [4, p. 436].

What is more, according to Ansari et al. [1] online channel interactions decrease the likelihood that users interact with people on the telephone. The attendant reduction in personal service could lead to lower loyalty. This is extremely important because of the perception of customer loyalty, by many service providers, as an important source of competitive advantage, enhanced customer loyalty in service firms will lead to greater profitability [21, p. 252]. In the context of multichannel sales, Melis et al. [12, p. 285] pay attention to some very important issue – the offline environment is important when consumers start to shop in the new online channel, however becomes less important in favor of the online environment when consumers get familiar with online store. They also find that the positive effect of offline store preference on the online store choice probability is stronger when there is a better integration in marketing mix between the online and offline store of the chain. And finally, the positive transfer effect of offline on online store choice fades over time as consumers gain more online stores shopping experience. When consumers become more familiar with the online shopping environment and more knowledgeable and confident with the online buying process, their focus shifts from a comparison within chains across the online and offline channel to a comparison within the online channel across chains.

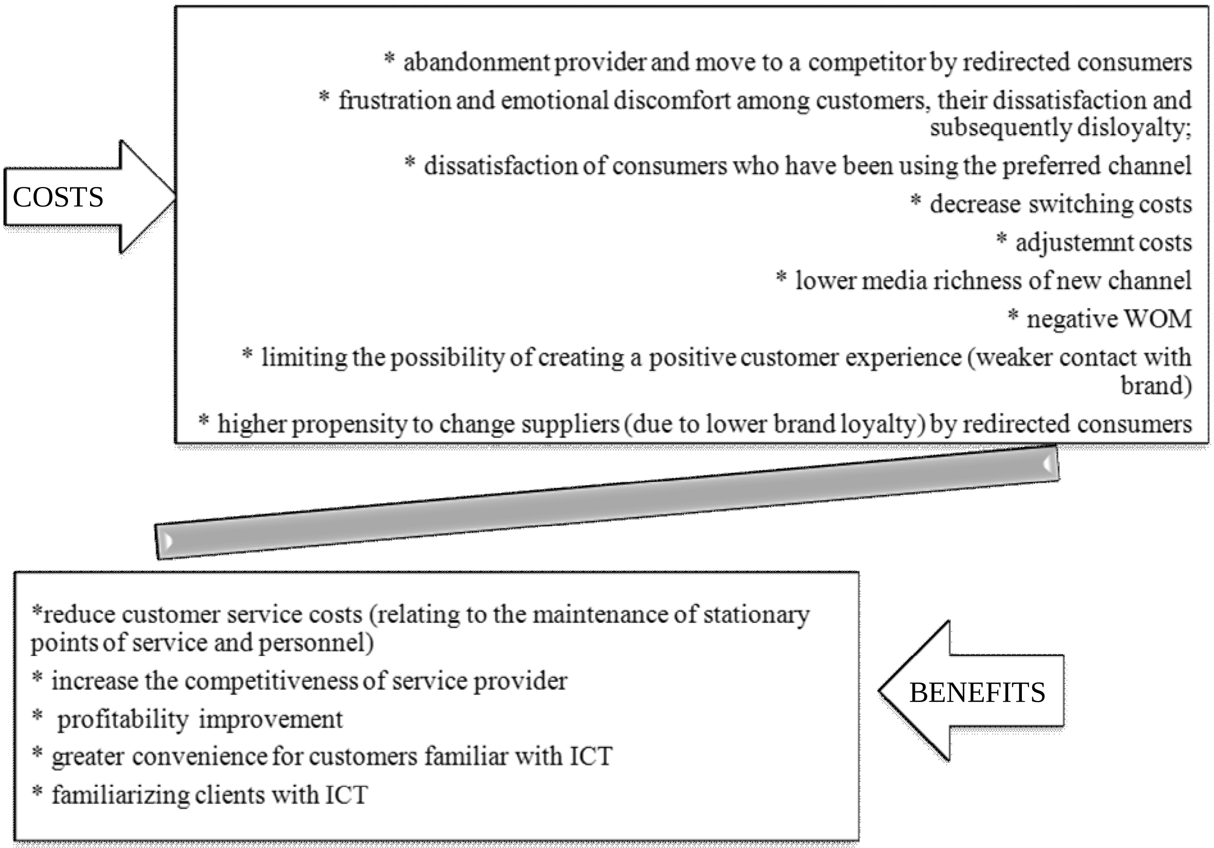
Conclusions

Without a doubt, the notion that migration is unqualifiedly positive because it lowers costs and increases demand should be tempered by the admonition that it can be negatively associated with long-term purchase patterns (fig.).

Depending on the type of migration strategy the results may be more or less burdensome for its initiator. Trying to create a hierarchy of strategies according to their potential results for service provider the following order should be indicated – the least harmful strategy is voluntary migration strategy, then strategy based on incentives, strategy based on punishments and forced migration strategy to online channel. It seems that the knowledge of existing customers is very important for the effects of the migration strategy - including their willingness to use ICT, which determines the perceived media richness. Important is also the degree of customer loyalty – the lower loyalty level, the greater the risk of losing customers after redirecting them to the online channel.

Prospects for future research

It is worth paying attention to the changing role of offline points of service. Nowadays more and more emphasis should be placed on maintaining contact between service brand and consumer and maintaining his/her positive experience.



Forced E-channel migration strategy – benefits and costs for service provider
Source: Own study.

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